

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED JUNE 30, 2014.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____.

Commission File No. 0-13375

LSI INDUSTRIES INC.

(Exact name of Registrant as specified in its charter)

Ohio
(State or other jurisdiction of
incorporation or organization)

10000 Alliance Road
Cincinnati, Ohio 45242
(Address of principal executive offices)

IRS Employer I.D.
No. 31-0888951

(513) 793-3200
(Telephone number of principal executive offices)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common shares, no par value	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of December 31, 2013, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was approximately \$197,167,000 based upon a closing sale price of \$8.67 per share as reported on The NASDAQ Global Select Market.

At August 26, 2014 there were 24,113,030 no par value Common Shares issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s Proxy Statement filed with the Commission for its 2014 Annual Meeting of Shareholders are incorporated by reference in Part III, as specified.

LSI INDUSTRIES INC.
2014 FORM 10-K ANNUAL REPORT
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“Safe Harbor” Statement under the Private Securities Litigation Reform Act of 1995

This Form 10-K contains certain forward-looking statements that are subject to numerous assumptions, risks or uncertainties. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Forward-looking statements may be identified by words such as “estimates,” “anticipates,” “projects,” “plans,” “expects,” “intends,” “believes,” “seeks,” “may,” “will,” “should” or the negative versions of those words and similar expressions, and by the context in which they are used. Such statements, whether expressed or implied, are based upon current expectations of the Company and speak only as of the date made. Actual results could differ materially from those contained in or implied by such forward-looking statements as a result of a variety of risks and uncertainties over which the Company may have no control. These risks and uncertainties include, but are not limited to, the impact of competitive products and services, product demand and market acceptance risks, potential costs associated with litigation and regulatory compliance, reliance on key customers, financial difficulties experienced by customers, the cyclical and seasonal nature of our business, the adequacy of reserves and allowances for doubtful accounts, fluctuations in operating results or costs whether as a result of uncertainties inherent in tax and accounting matters or otherwise, unexpected difficulties in integrating acquired businesses, the ability to retain key employees of acquired businesses, the ability to recognize the benefits of an acquisition, including potential synergies and cost savings or the failure of an acquired company to achieve its plans and objectives generally, unfavorable economic and market conditions, the results of asset impairment assessments and the other risk factors that are identified herein. You are cautioned to not place undue reliance on these forward-looking statements. In addition to the factors described in this paragraph, the risk factors identified in our Form 10-K and other filings the Company may make with the SEC constitute risks and uncertainties that may affect the financial performance of the Company and are incorporated herein by reference. The Company does not undertake and hereby disclaims any duty to update or revise any forward-looking statements to reflect subsequent events or circumstances.

PART I

ITEM 1. BUSINESS

Our Company

We are a leading provider of comprehensive corporate visual image solutions through the combination of extensive digital and screen graphics capabilities, a wide variety of high quality indoor and outdoor lighting products, lighting control systems, and related professional services. We also provide graphics and lighting products and professional services on a stand-alone basis. Our company is the leading provider of corporate visual image solutions to the petroleum / convenience store industry. We use this leadership position to penetrate national retailers and multi-site retailers, including quick service and casual restaurants, retail chain stores and automobile dealerships located primarily in the United States as well as internationally. In addition, we are a provider of digital solid-state LED (light emitting diode) video screens and LED specialty lighting to such markets or industries as sports stadiums and arenas, advertising billboards, and entertainment. We design and develop all aspects of the solid-state LED video screens and lighting, from the electronic circuit board, to the software to drive and control the LEDs, to the structure of the LED product.

We seek to expand our market share in the traditional commercial / industrial lighting market by combining our LED product innovation and lighting control solutions with a strong emphasis on high service levels, U.S. manufactured products and market focused solutions. We offer a complete line of competitively priced energy efficient exterior and interior lighting products. Our solutions are targeted to both energy retrofit and new construction markets.

We believe that national retailers and niche market companies are increasingly seeking single-source suppliers with the project management skills and service expertise necessary to execute a comprehensive visual image program. The integration of our graphics, lighting, technology and professional services capabilities allows our customers to outsource to us the development of an entire visual image program from the planning and design stage through installation. Our approach is to combine standard, high-production lighting products, custom graphics applications and professional services to create complete customer-focused visual image solutions. We also offer products and services on a stand-alone basis to service our existing image solutions customers, to establish a presence in a new market or to create a relationship with a new customer. We believe that our ability to combine graphics and lighting products and professional services into a comprehensive visual image solution differentiates us from our competitors who offer only stand-alone products for lighting or graphics and who lack professional services offerings. During the past several years, we have continued to enhance our ability to provide comprehensive corporate visual image solutions by adding additional graphics capabilities, digital signage and media content management, lighting products, lighting control systems, LED video screens, LED lighting products and professional services through acquisitions and internal development.

Our focus on product development and innovation creates products that are essential components of our customers' corporate visual image strategy. Our spending on research and development was \$8.2 million in fiscal 2014, \$6.5 million in fiscal 2013, and \$5.5 million in fiscal 2012. We develop and manufacture lighting, lighting control systems, graphics and solid-state LED video screen and lighting products and distribute them through an extensive multi-channel distribution network that allows us to effectively service our target markets. Representative customers include BP, Chevron Texaco, 7-Eleven, ExxonMobil, Shell, Burger King, Dairy Queen, Taco Bell, Wendy's, Best Buy, CVS Caremark, JC Penney, Target Stores, Wal-Mart Stores, Chrysler, Ford, General Motors, Nissan, and Toyota. We service our customers at the corporate, franchise and local levels.

Our business is organized as follows: the Lighting Segment, which represented 76% of our fiscal 2014 net sales; the Graphics Segment, which represented 15% of our fiscal 2014 net sales; the Electronic Components Segment, which represented 7% of our fiscal 2014 net sales; and an All Other Category, which represented 2% of our fiscal 2014 net sales. See Note 2 of Notes to Consolidated Financial Statements beginning on page F-28 of this Form 10-K for additional information on business segments. Net sales by segment are as follows (in thousands):

	2014	2013	2012
Lighting Segment	\$ 227,628	\$ 206,363	\$ 199,610
Graphics Segment	46,166	46,770	42,131
Electronic Components Segment	19,491	20,333	18,515
All Other Category	6,178	7,324	8,146
Total Net Sales	<u>\$ 299,463</u>	<u>\$ 280,790</u>	<u>\$ 268,402</u>

Lighting Segment

Our Lighting Segment manufactures and markets outdoor and indoor lighting for the commercial, industrial, niche, and multi-site retail markets, including the petroleum / convenience store, quick-service, and automotive markets. Our products are designed and manufactured to provide maximum value and meet the high-quality, competitively-priced product requirements of our niche markets. We generally avoid specialty or custom-designed, low-volume products for single order opportunities. We do, however, design proprietary products used by our national account customers in large volume, and occasionally also provide custom products for large, specified projects. Our concentration is on our high-volume, standard product lines that meet our customers' needs. By focusing our product offerings, we achieve significant manufacturing and cost efficiencies.

Our lighting fixtures, poles and brackets are produced in a variety of designs, styles and finishes. Important functional variations include types of mounting, such as pole, bracket and surface, and the nature of the light requirement, such as down-lighting, wall-wash lighting, canopy lighting, flood-lighting, area lighting and security lighting. Our engineering staff performs photometric analyses and wind load safety studies for all light fixtures and also designs our fixtures and lighting systems. Our lighting products utilize a wide variety of different light sources, including solid-state LED, high-intensity discharge metal-halide, and fluorescent. The major products and services offered within our lighting segment include: exterior area lighting, interior lighting, canopy lighting, landscape lighting, LED lighting, lighting controls, light poles, lighting analysis, photometric layouts and solid state LED video screens for the sports and advertising markets. All of our products are designed for performance, reliability, ease of installation and service, as well as attractive appearance. The Company also has a focus on designing lighting system solutions and implementing strategies related to energy savings in substantially all markets served.

We offer our customers expertise in developing and utilizing high-performance LED white lightsource solutions for our Lighting and Graphics applications, which, when combined with the Company's lighting fixture expertise and technology has the potential to result in a broad spectrum of white light LED fixtures that offer equivalent or improved lighting performance with significant energy and maintenance savings as compared to the present metal halide and fluorescent lighting fixtures.

Lighting Segment net sales of \$227,628,000 in fiscal 2014 increased 10.3% from fiscal 2013 net sales of \$206,363,000. The Lighting Segment's net sales of light fixtures having solid-state LED technology totaled \$99.9 million in fiscal 2014, representing a \$28.5 million or 40.0% increase from fiscal 2013 net sales of solid-state LED light fixtures of \$71.4 million. There was a reduction in the Company's traditional lighting sales (metal halide and fluorescent light sources) from fiscal 2013 to fiscal 2014 as customers converted from traditional lighting to light fixtures having solid-state LED technology. The Lighting Segment's net sales related to LED video screens totaled \$5.0 million in fiscal 2014, representing a \$1.0 million or 16.6% decrease from fiscal 2013 net sales of \$6.0 million.

Lighting Segment net sales of \$206,363,000 in fiscal 2013 increased 3.4% from fiscal 2012 net sales of \$199,610,000. The Lighting Segment's net sales of light fixtures having solid-state LED technology totaled \$71.4 million in fiscal 2013, representing a \$2.6 million or 3.7% increase from fiscal 2012 net sales of solid-state LED light fixtures of \$68.9 million. The Lighting Segment's net sales related to LED video screens totaled \$6.0 million in fiscal 2013, representing a \$4.1 million or 220% increase from fiscal 2012 net sales of \$1.9 million.

Graphics Segment

The Graphics Segment manufactures and sells exterior and interior visual image elements related to graphics. These products are used in graphics displays and visual image programs in several markets, including the petroleum / convenience store market and multi-site retail operations. Our extensive lighting and graphics expertise, product offering, visual image solution implementation capabilities and other professional services represent significant competitive advantages. We work with corporations and design firms to establish and implement cost effective corporate visual image programs. Increasingly, we have become the primary supplier of exterior and interior graphics for our customers. We also offer installation management services for those customers who require the installation of interior or exterior products (utilizing pre-qualified independent subcontractors throughout the United States).

Our business can be significantly impacted by participation in a customer's "image conversion program," especially if it were to involve a "roll out" of that new image to a significant number of that customer's and its franchisees' retail sites. The impact to our business can be very positive with growth in net sales and profitability when we are engaged in an image conversion program. This can be followed in subsequent periods by lesser amounts of business or negative comparisons following completion of an image conversion program, unless we are successful in replacing that completed business with participation in new image conversion programs of similar size with one or more customers. An image conversion program can potentially involve any or all of the following improvements, changes or refurbishments at a customer's retail site: interior or exterior lighting (see discussion above about our lighting segment), interior or exterior store signage and graphics, and installation of these products in both the prototype and roll out phases of their program. We believe many of our retail customers, over the past several years, have delayed their normal cycle of image refresh or conversions, and therefore will choose to implement changes in the near future to maintain a safe, fresh or new image on their site in order to maintain or grow their market share.

The major products and services offered within our Graphics Segment include the following: signage and canopy graphics, pump dispenser graphics, building fascia graphics, decals, interior signage and marketing graphics, aisle markers, wall mural graphics, fleet graphics, prototype program graphics, digital signage and media content management, and installation services for graphics products.

Graphics Segment net sales of \$46,166,000 in fiscal 2014 decreased 1.3% from fiscal 2013 net sales of \$46,770,000. The \$0.6 million decrease in Graphics Segment net sales is primarily the net result of image conversion programs and sales to several petroleum / convenience store customers (\$9.7 million net increase), two grocery retailers (\$10.2 million decrease), two national drug store retailers (\$2.4 million increase), two quick-service restaurant chains (\$1.6 million increase), several retail chains (\$1.9 million decrease), one banking customer (\$0.8 million increase), and changes in volume or completion of several other smaller graphics programs in various markets (\$3.0 million decrease). The Graphics Segment net sales of graphic identification products that contain solid-state LED light sources and LED lighting for signage totaled \$2.4 million in fiscal 2014, representing a \$1.1 million increase from fiscal 2013 net sales of \$1.3 million.

Graphics Segment net sales of \$46,770,000 in fiscal 2013 increased 11.0% from fiscal 2012 net sales of \$42,131,000. The \$4.6 million increase in Graphics Segment net sales is primarily the net result of image conversion programs and sales to several petroleum / convenience store customers (\$0.9 million net decrease), two grocery retailers (\$6.7 million increase), two national drug store retailers (\$2.5 million decrease), two quick-service restaurant chains (\$1.5 million decrease), several retail chains (\$1.7 million increases) and changes in volume or completion of several other smaller graphics programs (\$1.1 million increase). The Graphics Segment net sales of graphic identification products that contain solid-state LED light sources and LED lighting for signage totaled \$1.3 million in fiscal 2013 compared to \$1.0 million in fiscal 2012.

Electronic Components Segment

The Electronic Components Segment includes the results of LSI ADL Technology and LSI Controls (formerly LSI Virticus). ADL Technology operates in Columbus, Ohio and designs, engineers and manufactures custom designed electronic circuit boards, assemblies and sub-assemblies used in various applications including the control of solid-state LED lighting. The Company acquired AdL Technology in fiscal 2010 as a vertical integration of circuit boards for LED lighting as well as the Company's other LED product lines such as digital scoreboards, advertising ribbons and billboards. LSI ADL Technology allows the Company to stay on the leading edge of product development, while at the same time providing opportunities to drive down manufacturing costs and control delivery of key components. In addition to its intercompany support, LSI ADL Technology serves a variety of external customers in various markets outside the Company's traditional lighting markets. LSI Controls, acquired by the Company in March 2012, operates in Beaverton, Oregon and designs, engineers and assembles wireless, internet-based lighting control systems in addition to basic lighting controls.

Electronic Components Segment net sales of \$19,491,000 in fiscal 2014 decreased 4.1% from fiscal 2013 net sales of \$20,333,000. The \$0.8 million decrease in Electronic Components Segment net sales is primarily the net result of a \$0.3 million decrease in sales to the telecommunications market, a \$0.4 million increase in sales to the transportation market, a \$0.2 million decrease in sales to original equipment manufacturers, a \$0.2 million increase in sales to the medical markets, and a \$0.7 million increase in sales to various other markets. In addition to the Segment's decrease in customer sales, its inter-segment sales increased 29.0% due to increased intercompany demand of LED circuit board assemblies used in light fixtures having solid-state LED technology.

Electronic Components Segment net sales of \$20,333,000 in fiscal 2013 increased 9.8% from fiscal 2012 net sales of \$18,515,000. The \$1.8 million increase in Electronic Components Segment net sales is primarily the net result of a \$0.5 million decrease in sales to the telecommunications market, a \$1.5 million increase in sales to the transportation market, a \$0.1 million decrease in sales to original equipment manufacturers, a \$0.3 million decrease in sales to the medical markets, and a \$1.3 million increase in sales to various other markets. In addition to the Segment's increase in customer sales, its inter-segment sales increased 20.5% due to increased intercompany demand of LED circuit board assemblies used in light fixtures having solid-state LED technology.

All Other Category

The All Other Category includes the results of all LSI operations that are not able to be aggregated into one of the three reportable business segments. Operating results of LSI Saco Technologies, LSI Images, and LSI Adapt are included in the All Other Category. The major products and services offered by operations included in the All Other Category include: design, production, and support of large format video screens using LED technology; exterior and interior menu board systems primarily for the quick service restaurant market; and surveying, permitting and project management services related to products of the Lighting and Graphics Segment. LSI Saco Technologies primarily provides research and development support to the Lighting and Graphics Segments. LSI Saco Technologies also offers its customers expertise in developing and utilizing high-performance LED color and white light source solutions for both lighting and graphics applications. This technology developed by LSI Saco has been applied in the Company's Lighting Segment in a broad spectrum of white light LED fixtures that offer equivalent or improved lighting performance with significant energy and maintenance savings as compared to the traditional metal halide and fluorescent lighting fixtures. Additionally, this LED technology is used in the Company's Graphics Segment to light, accent and provide color lighting to graphics display and visual image programs of the Company's retail, quick service restaurant and sports market customers.

All Other Category net sales of \$6,178,000 in fiscal 2014 decreased \$1.1 million or 15.7% from fiscal 2013 net sales of \$7,324,000. The \$1.1 million decrease in the All Other Category net sales is primarily the net result of net decreased sales of menu board systems (\$1.8 million), increased project management net sales (\$0.2 million), and increased net sales of LED video screen and specialty LED lighting sales to the Entertainment and other markets (\$0.4 million). Inter-segment sales increased 3.4% mostly due to LSI Adapt providing increased intercompany project management support.

All Other Category net sales of \$7,324,000 in fiscal 2013 decreased \$0.8 million or 10.1% from fiscal 2012 net sales of \$8,146,000. The \$0.8 million decrease in the All Other Category net sales is primarily the net result of net increased sales of menu board systems (\$0.2 million), decreased project management net sales (\$0.2 million), and decreased net sales of LED video screen and specialty LED lighting sales to the Entertainment and other markets (\$0.8 million). Inter-segment sales increased 15.6% primarily as a result of LSI Adapt providing increased intercompany project management support.

Goodwill and Intangible Asset Impairment

In fiscal 2014, there was no impairment of the Company's goodwill and indefinite-lived intangible assets. We recorded a non-cash \$805,000 full impairment of two definite-lived intangible assets in one of the reporting units in the Electronic Components Segment due to a decline in estimated discounted cash flows.

In fiscal 2013, we recorded a \$2,413,000, non-cash full goodwill impairment charge in one of the reporting units in the Electronic Components Segment due to a decline in estimated discounted cash flows. There was no impairment of the Company's definite or indefinite-lived intangible assets.

Our Competitive Strengths

Single Source Comprehensive Visual Image Solution Provider. We believe that we are the only company serving our target markets that combines significant graphics capabilities, lighting products and installation implementation capabilities to create comprehensive image solutions. We believe that our position as a single-source provider creates a competitive advantage over competitors who can only address either the lighting or the graphics component of a customer's corporate visual image program. Using our broad visual image solutions capabilities, our customers can maintain complete control over the creation of their visual image programs while avoiding the added complexity of coordinating separate lighting and graphics suppliers and service providers. We can use high technology software to produce computer-generated virtual prototypes of a customer's new or improved retail site image. We believe that these capabilities are unique to our target markets and they allow our customers to make educated, cost-effective decisions quickly.

Proven Ability to Penetrate Target Markets. We have grown our business by establishing a leadership position in the majority of our target markets as defined by our revenues, including petroleum / convenience stores, automobile dealerships and specialty retailers. Although our relationship with our customers may begin with the need for a single product or service, we leverage our broad product and service offering to identify additional products and solutions. We combine existing graphics, lighting and image element offerings, develop products and add services to create comprehensive solutions for our customers.

Product Development Focus. We believe that our ability to successfully identify, patent and develop new products has allowed us to expand our market opportunity and enhance our market position. Our product development initiatives are designed to increase the value of our product offering by addressing the needs of our customers and target markets through innovative retrofit enhancements to existing products or the development of new products. In addition, we believe our product development process creates value for our customers by producing products that offer energy efficiency, low maintenance requirements and long-term operating performance at competitive prices based upon the latest technologies available.

Development of Innovative and Patentable Solid State Lighting Technology. We have developed an expanding portfolio of technology patents related to the design of LED based products which are used to establish performance based product leadership in the markets we serve.

Strong Relationships with our Customers. We have used our innovative products and high-quality services to develop close, long-standing relationships with a large number of our customers. Many of our customers are recognized among the leaders in their respective markets, including customers such as BP, 7-Eleven, Chevron, CVS Caremark and Burger King. Their use of our products and services raises the visibility of our capabilities and facilitates the acceptance of our products and services in their markets. Within each of these markets, our ability to be a single source provider of image solutions often creates repeat business opportunities through corporate reimaging programs. We have served some of our customers since our inception in 1976.

Well-capitalized Balance Sheet. As part of our long-term operating strategy, we believe the Company maintains a conservative capital structure. With a strong equity base, we are able to preserve operating flexibility in times of industry expansion and contraction. In the current business environment, a strong balance sheet demonstrates financial viability to our existing and targeted customers. In addition, a strong balance sheet enables us to continue important R&D and capital spending.

Aggressive Use of Our Lighting Product Education Center Capabilities. Our Lighting Product Education Center and i-Zone marketing center capabilities provide us with a distinct competitive advantage to demonstrate the effectiveness of integrating graphics and lighting into a complete corporate visual image program. Our technologically advanced Lighting Product Education Center, which demonstrate the depth and breadth of our product and service offerings, have become an effective component of our sales process.

Maintain our Vertically Integrated Business Model. We consider our company to be a vertically integrated manufacturer rather than a product assembler. We focus on developing unique customer-oriented products, solutions and technology, and outsource certain non-core processes and product components as necessary.

Sales, Marketing and Customers

Our lighting products (including lighting controls and excluding LED video screens) are sold primarily throughout the United States, but also in Canada, Australia, Latin America, Europe and the Middle East (about 6.5% of total net sales are outside the United States) using a combination of regional sales managers and independent sales representatives exclusively serving either the commercial/industrial or niche markets. Although in some cases we sell directly to national firms, more frequently we are designated as a preferred vendor for product sales to customer-owned as well as franchised, licensed and dealer operations. Our graphics products, which are program-driven, LED video screens, electronic components, and other products and services sold by operations in the All Other Category are sold primarily through our own sales force. Our marketing approach and means of distribution vary by product line and by type of market.

Sales are developed by contacts with national retail marketers, branded product companies, franchise and dealer operations. In addition, sales are also achieved through recommendations from local architects, engineers, petroleum and electrical distributors and contractors. Our sales are partially seasonal as installation of outdoor lighting and graphic systems in the northern states decreases during the winter months.

Our Lighting Product Education Center and i-Zone marketing center capabilities are important parts of our sales process. The Lighting Product Education Center, unique within the lighting and graphics industry, is a facility that can produce a computer-generated virtual prototype of a customer's facility on a large screen through the combination of high technology software and audio/visual presentation. The i-Zone marketing center is a digitally controlled facility containing a large solid-state LED video screen and several displays that showcase our LED technology and LED products. With these capabilities, our customers can instantly explore a wide variety of lighting and graphics alternatives to develop consistent day and nighttime images. These centers give our customers more options, greater control, and more effective time utilization in the development of lighting, graphics and visual image solutions, all with much less expense than traditional prototyping. In addition to being cost and time effective for our customers, we believe that our Lighting Product Education Center and i-Zone marketing center capabilities result in the best solution for our customers' needs.

The Image and i-Zone marketing centers also contain comprehensive indoor and outdoor product display areas that allow our customers to see many of our products and services in one setting. This aids our customers in making quick and effective lighting and graphic design decisions through hands-on product demonstrations and side-by-side comparisons. More importantly, these capabilities allow us to expand our customer's interest from just a single product into other products and solutions. We believe that our Lighting Product Education Center and i-Zone marketing center capabilities have further enhanced our position as a highly qualified outsourcing partner capable of guiding a customer through image alternatives utilizing our lighting and graphics products and services. We believe this capability distinguishes us from our competitors and will become increasingly beneficial in attracting additional customers.

Manufacturing and Operations

We design, engineer and manufacture substantially all of our lighting and graphics products, in the United States, through a vertically integrated business model. By emphasizing high-volume production of standard product lines, we achieve significant manufacturing efficiencies. When appropriate, we utilize alliances with vendors to outsource certain products and assemblies. LED products and related software are engineered, designed and final-assembled by the Company, while a portion of the manufacturing has been performed by select qualified vendors. We are not dependent on any one supplier for any of our component parts.

The principal raw materials and purchased components used in the manufacturing of our products are steel, aluminum, wire harnesses, sockets, lamps, certain fixture housings, acrylic and glass lenses, lighting ballasts, inks, various graphics substrates such as decal material and vinyls, LEDs and electronic components. We source these materials and components from a variety of suppliers. Although an interruption of these supplies and components could disrupt our operations, we believe generally that alternative sources of supply exist and could be readily arranged. We strive to reduce price volatility in our purchases of raw materials and components through quarterly or annual contracts with certain of our suppliers. Our Lighting operations generally carry a certain level of sub-assemblies in inventory and relatively small amounts of finished goods inventory, except for certain products that are stocked to meet quick delivery requirements. Most often, lighting products are made to order and shipped shortly after they are manufactured. Our Graphics operations manufacture custom graphics products for customers who frequently require us to stock certain amounts of finished goods in exchange for their commitment to that inventory. In some Graphics programs, customers also give us a cash advance for the inventory that we stock for them. The Company's operations dealing with LED products generally carry LED and LED component inventory due to longer lead times, or the possibility of worldwide shortages of electronic components. LED products are generally made to order and shipped shortly after assembly is complete. Customers purchasing LED video screens routinely give us cash advances for large projects prior to shipment. Our Electronic Components operations purchase electronic components from multiple suppliers and manufacture custom electronic circuit boards and lighting control systems. Most products are made to order and, as a result, these operations do not carry very many finished goods.

We believe we are a low-cost producer for our types of products, and as such, are in a position to promote our product lines with substantial marketing and sales activities.

We currently operate out of eleven manufacturing facilities and two sales facilities in eight U.S. states and Canada.

Our manufacturing operations are subject to various federal, state and local regulatory requirements relating to environmental protection and occupational health and safety. We do not expect to incur material capital expenditures with regard to these matters and believe our facilities are in compliance with such regulations.

Competition

We experience strong competition in all segments of our business, and in all markets served by our product lines. Although we have many competitors, some of which have greater financial and other resources, we do not compete with the same companies across our entire product and service offerings. We believe product quality and performance, price, customer service, prompt delivery, and reputation to be important competitive factors. We also have several product and process patents which have been obtained in the normal course of business which provide a competitive advantage in the marketplace.

Additional Information

Our sales are partially seasonal as installation of outdoor lighting and graphic systems in the northern states lessens during the harshest winter months. We had a backlog of orders, which we believe to be firm, of \$34.0 million and \$42.4 million at June 30, 2014 and 2013, respectively. All orders are believed to be shippable or installed within twelve months. The higher amount as of June 30, 2013 relates primarily to an increase of orders in our Lighting and Graphics Segments and to improved on-time delivery as of June 30, 2014.

We have approximately 1,277 full-time employees and 340 agency employees as of June 30, 2014. We offer a comprehensive compensation and benefit program to most employees, including competitive wages, a discretionary bonus plan, a profit-sharing plan and retirement plan, and a 401(k) savings plan (for U.S. employees), a non-qualified deferred compensation plan (for certain employees), an equity compensation plan, and medical and dental insurance.

We file reports with the Securities and Exchange Commission ("SEC") on Forms 10-K, 10-Q and 8-K. You may read and copy any materials filed with the SEC at its public reference room at 100 F. Street, N.E., Room 1580, Washington, D.C. 20549. You may also obtain that information by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet website that contains reports, proxy and information statements and other information regarding us. The address of that site is <http://www.sec.gov>. Our internet address is <http://www.lsi-industries.com>. We make available free of charge through our internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 as soon as reasonably practical after we electronically file them with the SEC. LSI is not including the other information contained on its website as part of or incorporating it by reference into this Annual Report on Form 10-K.

LSI Industries Inc. is an Ohio corporation, incorporated in 1976.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the following factors which could materially affect our business, financial condition, cash flows or future results. Any one of these factors could cause the Company's actual results to vary materially from recent results or from anticipated future results. The risks described below are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

The markets in which we operate are subject to competitive pressures that could affect selling prices, and therefore could adversely affect our operating results.

Our businesses operate in markets that are highly competitive, and we compete on the basis of price, quality, service and/or brand name across the industries and markets served. Some of our competitors for certain products, primarily in the Lighting Segment, have greater sales, assets and financial resources than we have. Some of our competitors are based in foreign countries and have cost structures and prices in foreign currencies. Accordingly, currency fluctuations could cause our U.S. dollar-priced products to be less competitive than our competitors' products which are priced in other currencies. Competitive pressures could affect prices we charge our customers or demand for our products, which could adversely affect our operating results. Additionally, customers for our products are attempting to reduce the number of vendors from which they purchase in order to reduce the size and diversity of their inventories and their transaction costs. To remain competitive, we will need to invest continuously in research and development, manufacturing, marketing, customer service and support, and our distribution networks. We may not have sufficient resources to continue to make such investments and we may be unable to maintain our competitive position.

Lower levels of economic activity in our end markets could adversely affect our operating results.

Our businesses operate in several market segments including commercial, industrial, retail, petroleum / convenience store and entertainment. Operating results can be negatively impacted by volatility in these markets. Future downturns in any of the markets we serve could adversely affect our overall sales and profitability.

Our operating results may be adversely affected by unfavorable economic, political and market conditions.

Economic and political conditions worldwide have from time to time contributed to slowdowns in our industry at large, as well as to the specific segments and markets in which we operate. When combined with ongoing customer consolidation activity and periodic manufacturing and inventory initiatives, an uncertain macro-economic and political climate, including but not limited to the effects of possible weakness in domestic and foreign financial and credit markets, could lead to reduced demand from our customers and increased price competition for our products, increased risk of excess and obsolete inventories and uncollectible receivables, and higher overhead costs as a percentage of revenue. If the markets in which we participate experience further economic downturns, as well as a slow recovery period, this could negatively impact our sales and revenue generation, margins and operating expenses, and consequently have a material adverse effect on our business, financial condition and results of operations.

Price increases or significant shortages of raw materials and components could adversely affect our operating margin.

The Company purchases large quantities of raw materials and components — mainly steel, aluminum, light bulbs and fluorescent tubes, lighting ballasts, sockets, wire harnesses, plastic lenses, glass lenses, vinyls, inks, LEDs, electronic components and corrugated cartons. Materials comprise the largest component of costs, representing approximately 61% and 60% of the cost of sales in 2014 and 2013, respectively. While we have multiple sources of supply for each of our major requirements, significant shortages could disrupt the supply of raw materials. Further increases in the price of these raw materials and components could further increase the Company's operating costs and materially adversely affect margins. Although the Company attempts to pass along increased costs in the form of price increases to customers, the Company may be unsuccessful in doing so for competitive reasons. Even when price increases are successful, the timing of such price increases may lag significantly behind the incurrence of higher costs. On occasion, there are selected electronic component parts and certain other parts shortages in the market place, some of which have affected the Company's manufacturing operations and shipment schedules even though multiple suppliers may be available. The lead times of these suppliers can increase and the prices of some of these parts have increased during periods of shortages. Fluorescent tubes and other light bulbs contain rare earth minerals, which have become more expensive and in short supply throughout the world, thereby affecting the Company's supply and cost of these light sources.

We have a concentration of net sales to the petroleum / convenience store market, and any substantial change in this market could have an adverse affect on our business.

Approximately 30% of our net sales in fiscal year 2014 are concentrated in the petroleum / convenience store market. Sales to this market segment are dependent upon the general conditions prevailing in and the profitability of the petroleum and convenience store industries and general market conditions. Our petroleum market business is subject to reactions by the petroleum industry to world political events, particularly those in the Middle East, and to the price and supply of oil. Major disruptions in the petroleum industry generally result in a curtailment of retail marketing efforts, including expansion and refurbishing of retail outlets, by the petroleum industry and adversely affect our business. Any substantial change in purchasing decisions by one or more of our largest customers, whether due to actions by our competitors, customer financial constraints, industry factors or otherwise, could have an adverse effect on our business.

Difficulties with integrating acquisitions could adversely affect operating costs and expected benefits from those acquisitions.

We have pursued and may continue to seek potential acquisitions to complement and expand our existing businesses, increase our revenues and profitability, and expand our markets. We cannot be certain that we will be able to identify, acquire or profitably manage additional companies or successfully integrate such additional companies without substantial costs, delays or other problems. Also, companies acquired recently and in the future may not achieve revenues, profitability or cash flows that justify our investment in them. We expect to spend significant time and effort in expanding our existing businesses and identifying, completing and integrating acquisitions. We expect to face competition for acquisition candidates which may limit the number of acquisition opportunities available to us, possibly leading to a decrease in the rate of growth of our revenues and profitability, and may result in higher acquisition prices. The success of these acquisitions we do make will depend on our ability to integrate these businesses into our operations. We may encounter difficulties in integrating acquisitions into our operations, retaining key employees of acquired companies and in managing strategic investments. Therefore, we may not realize the degree or timing of the benefits anticipated when we first enter into a transaction.

If acquisitions are made in the future and goodwill and intangible assets are recorded on the balance sheet, circumstances could arise in which the goodwill and intangible assets could become impaired and therefore would be written off.

We have pursued and will continue to seek potential acquisitions to complement and expand our existing businesses, increase our revenues and profitability, and expand our markets through acquisitions. As a result of acquisitions, we have significant goodwill and intangible assets recorded on our balance sheet. We will continue to evaluate the recoverability of the carrying amount of our goodwill and intangible assets on an ongoing basis, and we may incur substantial non-cash impairment charges, which would adversely affect our financial results. There can be no assurance that the outcome of such reviews in the future will not result in substantial impairment charges. Impairment assessment inherently involves judgment as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact our assumptions as to prices, costs, holding periods or other factors that may result in changes in our estimates of future cash flows. Although we believe the assumptions we used in testing for impairment are reasonable, significant changes in any one of our assumptions could produce a significantly different result. If there were to be a decline in our market capitalization and a decline in estimated forecasted discounted cash flows, there could be an impairment of the goodwill and intangible assets. A non-cash impairment charge could be material to the earnings of the reporting period in which it is recorded.

If we do not develop the appropriate new products or if customers do not accept new products, we could experience a loss of competitive position which could adversely affect future revenues.

The Company is committed to product innovation on a timely basis to meet customer demands. Development of new products for targeted markets requires the Company to develop or otherwise leverage leading technologies in a cost-effective and timely manner. Failure to meet these changing demands could result in a loss of competitive position and seriously impact future revenues. Products or technologies developed by others may render the Company's products or technologies obsolete or noncompetitive. A fundamental shift in technologies in key product markets could have a material adverse effect on the Company's operating results and competitive position within the industry. More specifically, the development of new or enhanced products is a complex and uncertain process requiring the anticipation of technological and market trends. Rapidly changing product technologies could adversely impact operating results due to potential technological obsolescence of certain inventories or increased warranty expense related to newly developed LED lighting products. We may experience design, manufacturing, marketing or other difficulties, such as an inability to attract a sufficient number of experienced engineers that could delay or prevent our development, introduction or marketing of new products or enhancements and result in unexpected expenses. Such difficulties could cause us to lose business from our customers and could adversely affect our competitive position. In addition, added expenses could decrease the profitability associated with those products that do not gain market acceptance.

Our business is cyclical and seasonal, and in downward economic cycles our operating profits and cash flows could be adversely affected.

Historically, sales of our products have been subject to cyclical variations caused by changes in general economic conditions. Our revenues in our third quarter ending March 31 are also affected by the impact of weather on construction and installation programs and the annual budget cycles of major customers. The demand for our products reflects the capital investment decisions of our customers, which depend upon the general economic conditions of the markets that our customers serve, including, particularly, the petroleum and convenience store industries. During periods of expansion in construction and industrial activity, we generally have benefited from increased demand for our products. Conversely, downward economic cycles in these industries result in reductions in sales and pricing of our products, which may reduce our profits and cash flow. During economic downturns, customers also tend to delay purchases of new products. The cyclical and seasonal nature of our business could at times adversely affect our liquidity and financial results.

A loss of key personnel or inability to attract qualified personnel could have an adverse affect on our operating results.

The Company's future success depends on the ability to attract and retain highly skilled technical, managerial, marketing and finance personnel, and, to a significant extent, upon the efforts and abilities of senior management. The Company's management philosophy of cost-control results in a very lean workforce. Future success of the Company will depend on, among other factors, the ability to attract and retain other qualified personnel, particularly management, research and development engineers and technical sales professionals. The loss of the services of any key employees or the failure to attract or retain other qualified personnel could have a material adverse effect on the Company's results of operations.

The costs of litigation and compliance with environmental regulations, if significantly increased, could have an adverse affect on our operating profits.

We are, and may in the future be, a party to any number of legal proceedings and claims, including those involving patent litigation, product liability, employment matters, and environmental matters, which could be significant. Given the inherent uncertainty of litigation, we can offer no assurance that existing litigation or a future adverse development will not have a material adverse impact. We are also subject to various laws and regulations relating to environmental protection and the discharge of materials into the environment, and it could potentially be possible we could incur substantial costs as a result of the noncompliance with or liability for clean up or other costs or damages under environmental laws.

New regulations related to conflict minerals could adversely impact our business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as conflict minerals, originating from the Democratic Republic of Congo (DRC) and adjoining countries. As a result, in August 2012 the SEC adopted annual disclosure and reporting requirements for those companies who use conflict minerals mined from the DRC and adjoining countries in their products. These new requirements required due diligence efforts in calendar 2013, and initial disclosure requirements in May 2014. We incurred certain costs associated with complying with these disclosure requirements, including for diligence to determine the sources of conflict minerals used in our products. Ongoing compliance with these rules could adversely affect the sourcing, supply and pricing of materials used in our products. As there may be only a limited number of suppliers offering "conflict free" conflict minerals, we cannot be sure that we will be able to obtain necessary conflict minerals from such suppliers in sufficient quantities or at competitive prices. Also, we may face reputational challenges if we determine that certain of our products contain minerals are not conflict free or if we are unable to sufficiently verify the origins for all conflict minerals used in our products through the procedures we have already implemented or may implement.

The turnover of commissioned sales representatives could cause a significant disruption in sales volume.

Commissioned sales representatives are critical to generating business in the Lighting Segment. From time to time, commissioned sales representatives representing a particular region are terminated and replaced with new commissioned sales representatives. During this period of transition from the previous agency to the new one, sales in the particular region will likely fall as business is disrupted. It may take several months for the new sales representative to generate sales that will equal or exceed the previous sales representative. There is also the risk that the new sales agency will not attain the sales volume of the previous agency. These sales representative changes may occur individually as one agency is replaced due to lack of performance. On the other hand, these sales representative changes can be widespread as a result of the competitive nature of the lighting industry as LSI and its competition vie for the strongest sales agency in a particular region.

Changes in a customer's demands and commitment to proprietary inventory could result in significant inventory write-offs.

Upgrading or replacing a customer's current image requires the manufacture of inventory that is specific to the particular customer. This is particularly true in the Graphics Segment. In as many instances as possible, we require a commitment from the customer before the inventory is produced. Our request for a commitment can range from a single site or store to a large roll-out program involving many sites or stores. The risk does exist that a customer cannot or will not honor its commitment to us. The reasons a customer cannot or will not honor its commitment can range from the bankruptcy of the customer, to the change in the image during the roll-out program, to canceling the program before its completion and before the inventory is sold to the customer. In each of these instances, we could be left with significant amounts of inventory required to support the customer's re-imaging. While all efforts are made to hold the customer accountable for its commitment, there is the risk that a significant amount of inventory could be deemed obsolete and no longer usable which could result in significant inventory write-offs.

If we are unable to adequately protect our intellectual property, we may lose some of our competitive advantage.

Our success is determined in part by our ability to obtain United States and foreign patent protection for our technology and to preserve our trade secrets. Our ability to compete and the ability of our business to grow could suffer if our intellectual property rights are not adequately protected. There can be no assurance that our patent applications will result in patents being issued or that current or additional patents will afford protection against competitors. We rely on a combination of patents, copyrights, trademarks and trade secret protection and contractual rights to establish and protect our intellectual property. Failure of our patents, copyrights, trademarks and trade secret protection, non-disclosure agreements and other measures to provide protection of our technology and our intellectual property rights could enable our competitors to more effectively compete with us and have an adverse effect on our business, financial condition and results of operations. In addition, our trade secrets and proprietary know-how may otherwise become known or be independently discovered by others. No guarantee can be given that others will not independently develop substantially equivalent proprietary information or techniques, or otherwise gain access to our proprietary technology.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company has fourteen facilities:

Description	Size	Location	Status
1) LSI Industries Corporate Headquarters and lighting fixture manufacturing	243,000 sq. ft. (includes 66,000 sq. ft. of office space)	Cincinnati, OH	Owned
2) LSI Industries pole manufacturing and dry powder-coat painting	122,000 sq. ft.	Cincinnati, OH	Owned
3) LSI Metal Fabrication and LSI Images manufacturing and dry powder-coat painting	98,000 sq. ft. (includes 5,000 sq. ft. of office space)	Independence, KY	Owned
4) LSI Integrated Graphics office; screen printing manufacturing; and architectural graphics manufacturing	141,000 sq. ft. (includes 34,000 sq. ft. of office space)	Houston, TX	Leased
5) LSI Industries sales and engineering office	9,000 sq. ft. (includes 3,000 sq. ft. of office space)	Dallas, TX	Leased
6) Grady McCauley office and manufacturing	210,000 sq. ft. (includes 20,000 sq. ft. of office space)	North Canton, OH	Owned
7) LSI MidWest Lighting office and manufacturing	137,000 sq. ft. (includes 6,000 sq. ft. of office space)	Kansas City, KS	Owned
8) LSI Retail Graphics office and manufacturing	33,000 sq. ft. (includes 5,000 sq. ft. of office space)	Woonsocket, RI	Owned
9) LSI Lightron office and manufacturing	170,000 sq. ft. (includes 10,000 sq. ft. of office space)	New Windsor, NY	Owned and Leased (a)
10) LSI Adapt offices	2,000 sq. ft.	North Canton, OH Pineville, NC	Owned Leased
11) LSI Saco Technologies office and manufacturing	13,000 sq. ft. (includes 4,000 sq. ft. of office space)	Montreal, Canada	Leased
12) LSI ADL Technology office and manufacturing	57,000 sq. ft. (includes 5,000 sq. ft. of office space)	Columbus, OH	Owned

13) LSI Controls office and manufacturing/assembly	11,000 sq. ft. (includes 5,000 sq. ft. of office space)	Beaverton, OR	Leased
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(a) The land at this facility is leased and the building is owned.

The Company considers these facilities (total of 1,246,600 square feet) adequate for its current level of operations.

ITEM 3. LEGAL PROCEEDINGS

Nothing to report.

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

- (a) Common share information appears in Note 15 — SUMMARY OF QUARTERLY RESULTS (UNAUDITED) under "Range of share prices" beginning on page F-43 of this Form 10-K. Information related to "Earnings (loss) per share" and "Cash dividends paid per share" appears in SELECTED FINANCIAL DATA on page F-44 of this Form 10-K. LSI's shares of common stock are traded on the NASDAQ Global Select Market under the symbol "LYTS."

The Company's policy with respect to dividends is to pay a quarterly cash dividend representing a payout ratio of between 50% and 70% of the then current fiscal year net income forecast. Accordingly, the Board of Directors established an annual cash dividend rate of \$0.24 per share beginning with the first quarter of fiscal 2014 consistent with the above dividend policy. The Company has paid annual cash dividends beginning in fiscal 1987 through fiscal 1994, and quarterly cash dividends since fiscal 1995. The Company's indicated annual rate for payment of a cash dividend for fiscal 2015 has yet to be determined and is currently under evaluation.

At August 26, 2014, there were 522 shareholders of record. The Company believes this represents approximately 3,000 beneficial shareholders.

(b) The Company does not purchase into treasury its own common shares for general purposes. However, the Company does purchase its own common shares, through a Rabbi Trust, as investments of employees/participants of the LSI Industries Inc. Non-Qualified Deferred Compensation Plan. Purchases of Company common shares for this Plan in the fourth quarter of fiscal 2014 were as follows:

ISSUER PURCHASES OF EQUITY SECURITIES

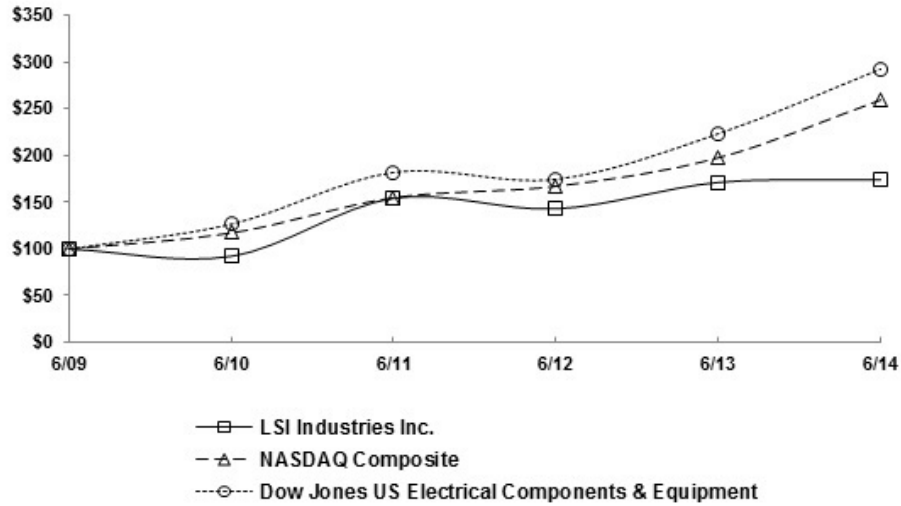
Period	(a) Total		(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
	Number of Shares Purchased				
4/1/14 to 4/30/14	611	\$	8.16	611	(1)
5/1/14 to 5/31/14	946	\$	7.93	946	(1)
6/1/14 to 6/30/14	647	\$	7.80	647	(1)
Total	<u>2,204</u>	<u>\$</u>	<u>8.00</u>	<u>2,204</u>	<u>(1)</u>

(1) All acquisitions of shares reflected above have been made in connection with the Company's Non-Qualified Deferred Compensation Plan, which does not contemplate a limit on shares to be acquired.

The following graph compares the cumulative total shareholder return on the Company's common shares during the five fiscal years ended June 30, 2014 with a cumulative total return on the NASDAQ Stock Market Index (U.S. companies) and the Dow Jones Electrical Equipment Index. The comparison assumes \$100 was invested June 30, 2009 in the Company's Common Shares and in each of the indexes presented; it also assumes reinvestment of dividends.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among LSI Industries Inc., the NASDAQ Composite Index,
and the Dow Jones US Electrical Components & Equipment Index



*\$100 invested on 6/30/09 in stock or index, including reinvestment of dividends.
Fiscal year ending June 30.

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The stock price performance included in this graph is not necessarily indicative of future stock price performance.

ITEM 6. SELECTED FINANCIAL DATA

“Selected Financial Data” begins on page F-44 of this Form 10-K.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

“Management’s Discussion and Analysis of Financial Condition and Results of Operations” appears on pages F-1 through F-15 of this Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from changes in variable interest rates, changes in prices of raw materials and component parts, and changes in foreign currency translation rates. Each of these risks is discussed below.

Interest Rate Risk

The Company earns interest income on its cash, cash equivalents, and short-term investments (if any) and pays interest expense on its debt (if any). Because of variable interest rates, the Company is exposed to the risk of interest rate fluctuations, which impact interest income, interest expense, and cash flows. With the current balance in the Company’s short-term cash investments and absence of any outstanding variable rate debt, the adverse exposure to interest rate fluctuations has decreased considerably.

All of the Company's \$35,000,000 available lines of credit are subject to interest rate fluctuations, should the Company borrow certain amounts on these lines of credit. Additionally, the Company expects to generate cash from its operations that will subsequently be used to pay down as much of the debt (if any is outstanding) as possible or invest cash in short-term investments (if no debt is outstanding), while still funding the growth of the Company.

Raw Material Price Risk

The Company purchases large quantities of raw materials and components, mainly steel, aluminum, light bulbs, fluorescent tubes, lighting ballasts, sockets, wire harnesses, plastic lenses, glass lenses, vinyls, inks, LEDs, electronic components, and corrugated cartons. The Company's operating results could be affected by the availability and price fluctuations of these materials. The Company uses multiple suppliers, has alternate suppliers for most materials, and has no significant dependence on any single supplier. Other than the possibility of industry-wide electronic component supply shortages and the potential shortage in rare earth minerals used in fluorescent lamps, the Company has not experienced any significant supply problems in recent years. Supply shortages of certain electronic components and certain other parts in fiscal 2012 and fiscal 2013 along with shortages in die cast light housings in the fiscal 2014 have caused some production and shipment delays. The Company has dealt with these issues and is currently not experiencing such delays. Price risk for these materials is related to increases in commodity items that affect all users of the materials, including the Company's competitors. For the fiscal year ended June 30, 2014, the raw material component of cost of goods sold subject to price risk was approximately \$143 million. The Company does not actively hedge or use derivative instruments to manage its risk in this area. The Company does, however, seek new vendors, negotiate with existing vendors, and at times commit to minimum volume levels to mitigate price increases. The Company negotiates supply agreements with certain vendors to lock in prices over a negotiated period of time. On occasion, the Company's Lighting Segment has announced price increases with customers in order to offset raw material price increases. In fiscal 2014, the company did initiate a 3% to 5% price increase, effective in February 2014. While competitors of the Company's lighting business have announced similar price increases, the lighting market remains very price competitive. The Company's Graphics Segment generally establishes new sales prices, reflective of the then current raw material prices, for each custom graphics program as it begins.

Foreign Currency Translation Risk

As a result of the operation of a subsidiary in Montreal, Canada, the Company is exposed to fluctuations in foreign currency exchange rates in the operation of its Canadian business. However, a substantial amount of this business is conducted in U.S. Dollars, therefore, any potential risk is deemed immaterial. Additionally, the financial transactions and financial statements of this subsidiary are recorded in U.S. Dollars.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Schedules other than those listed above are omitted for the reason(s) that they are either not applicable or not required or because the information required is contained in the financial statements or notes thereto. Selected quarterly financial data is found in Note 15 of the accompanying consolidated financial statements.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as amended (the “Exchange Act”)) that are designed to ensure that information required to be disclosed in the Company’s reports under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including the Company’s Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company periodically reviews the design and effectiveness of its disclosure controls and internal control over financial reporting. The Company makes modifications to improve the design and effectiveness of its disclosure controls and internal control structure, and may take other corrective action, if its reviews identify a need for such modifications or actions. The Company’s disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives.

As of the end of the period covered by this Form 10-K, an evaluation was completed under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, regarding the design and effectiveness of our disclosure controls and procedures. Based on this evaluation, our management, including our principal executive officer and principal financial officer, has concluded that our disclosure controls and procedures were effective as of June 30, 2014.

Changes in Internal Control

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended June 30, 2014, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. See Management's Report on Internal Control Over Financial Reporting on page F-16.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEMS 10, 11, 12, 13 and 14 of Part III are incorporated by reference to the LSI Industries Inc. Proxy Statement for its Annual Meeting of Shareholders to be held November 20, 2014, as filed with the Commission pursuant to Regulation 14A.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The description of equity compensation plans required by Regulation S-K, Item 201(d) is incorporated by reference to the LSI Industries Inc. Proxy Statement for its Annual Meeting of Shareholders to be held November 20, 2014, as filed with the Commission pursuant to Regulation 14A.

The following table presents information about the Company's equity compensation plans (LSI Industries Inc. 2003 Equity Compensation Plan and the 2012 Stock Incentive Plan) as of June 30, 2014.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
			(a)
Equity compensation plans approved by security holders	2,677,464	\$ 9.57	686,831
Equity compensation plans not approved by security holders	—	—	—
Total	2,677,464	\$ 9.57	686,831

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

- (1) Consolidated Financial Statements
Appear as part of Item 8 of this Form 10-K.
- (2) Exhibits — Exhibits set forth below are either on file with the Securities and Exchange Commission and are incorporated by reference as exhibits hereto, or are filed with this Form 10-K.

Exhibit

Exhibit No.	Exhibit Description
3.1	Articles of Incorporation of LSI (incorporated by reference to Exhibit 3.1 to LSI's Form S-3 Registration Statement File No. 33-65043).
3.2	Amended Article Fourth of LSI's Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to LSI's Form 8-K filed November 19, 2009).
3.3	Amended and Restated Code of Regulations of LSI (incorporated by reference to Exhibit 3 to LSI's Form 8-K filed January 22, 2009).
4.1	Form of Senior Indenture (incorporated by reference to Exhibit 4.3 to LSI's Form S-3 Registration Statement File No. 333-169266 filed on September 8, 2010).
4.2	Form of Subordinated Indenture (incorporated by reference to Exhibit 4.4 to LSI's Form S-3 Registration Statement File No. 333-169266 filed on September 8, 2010).
10.1	Amended and Restated Loan Agreement between LSI Industries Inc. and PNC Bank, National Association (\$30 million; June 19, 2014)
10.2	Loan Agreement between LSI Saco Technologies Inc. and PNC Bank Canada Branch (\$5 million; June 19, 2014)
10.9*	LSI Industries Inc. Retirement Plan (Amended and Restated as of July 1, 2012) (incorporated by reference to Exhibit 10.9 to LSI's Form 10-K filed September 6, 2012).
10.10*	LSI Industries Inc. 1995 Directors' Stock Option Plan (Amended as of December 6, 2001) (incorporated by reference to Exhibit 10 to LSI's Form S-8 Registration Statement File No. 333-100038).
10.11*	LSI Industries Inc. 1995 Stock Option Plan (Amended as of December 6, 2001) (incorporated by reference to Exhibit 10 to LSI's Form S-8 Registration Statement File No. 333-100039).
10.12*	LSI Industries Inc. 2003 Equity Compensation Plan (Amended and Restated through November 19, 2009) (incorporated by reference to Exhibit 10.1 to LSI's Form 8-K filed November 19, 2009).
10.13*	Amended and Restated 2012 Stock Incentive Plan as of August 21, 2013 (incorporated by reference to Exhibit 10.1 to LSI's Form 8-K filed August 26, 2013).
10.14*	Trust Agreement Establishing the Rabbi Trust Agreement by and between LSI Industries Inc. and Prudential Bank & Trust, FSB (incorporated by reference to Exhibit 10.1 to LSI's Form 8-K filed January 5, 2006).
10.15*	LSI Industries Inc. Nonqualified Deferred Compensation Plan (Amended and Restated as of November 18, 2010) (incorporated by reference to Exhibit 10.1 to LSI's Form 8-K filed November 24, 2010).
10.16*	Amended Agreement dated January 25, 2005 with Robert J. Ready (incorporated by reference to Exhibit 10.1 to LSI's Form 8-K filed January 27, 2005).

10.17* Amended Agreement dated January 25, 2005 with James P. Sferra (incorporated by reference to Exhibit 10.2 to LSI's Form 8-K filed January 27, 2005).

10.18* Corporate Officer 2014 Incentive Plan (incorporated by reference to Exhibit 10.1 to LSI's Form 8-K filed August 26, 2013).

10.19* Change of Control Policy (incorporated by reference to Exhibit 10.1 to LSI's Form 8-K filed October 3, 2011).

14 Code of Ethics (incorporated by reference to Exhibit 14 to LSI's Form 10-K for the fiscal year ended June 30, 2004).

21 Subsidiaries of the Registrant

23.1 Consent of Independent Registered Public Accounting Firm (Grant Thornton LLP)

24 Power of Attorney (included as part of signature page)

31.1 Certification of Principal Executive Officer required by Rule 13a-14(a)

31.2 Certification of Principal Financial Officer required by Rule 13a-14(a)

32.1 18 U.S.C. Section 1350 Certification of Principal Executive Officer

32.2 18 U.S.C. Section 1350 Certification of Principal Financial Officer

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema

101.CAL XBRL Taxonomy Extension Calculation Linkbase

101.LAB XBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

101.DEF XBRL Taxonomy Extension Definition Document

* Management Compensatory Agreements

LSI will provide shareholders with any exhibit upon the payment of a specified reasonable fee, which fee shall be limited to LSI's reasonable expenses in furnishing such exhibit. The exhibits identified herein as being filed with the SEC have been so filed with the SEC but may not be included in this version of the Annual Report to Shareholders.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LSI INDUSTRIES INC.

September 10, 2014
Date

BY: /s/ Robert J. Ready
Robert J. Ready
Chairman of the Board and Chief Executive Officer

We, the undersigned directors and officers of LSI Industries Inc. hereby severally constitute Robert J. Ready and Ronald S. Stowell, and each of them singly, our true and lawful attorneys with full power to them and each of them to sign for us, in our names in the capacities indicated below, any and all amendments to this Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>
<u>/s/ Robert J. Ready</u> Robert J. Ready Date: September 10, 2014	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
<u>/s/ Ronald S. Stowell</u> Ronald S. Stowell Date: September 10, 2014	Vice President, Chief Financial Officer, and Treasurer (Principal Financial and Accounting Officer)
<u>/s/ Robert P. Beech</u> Robert P. Beech Date: September 10, 2014	Director
<u>/s/ Gary P. Kreider</u> Gary P. Kreider Date: September 10, 2014	Director
<u>Dennis B. Meyer</u> Date: September 10, 2014	Director
<u>/s/ Wilfred T. O’Gara</u> Wilfred T. O’Gara Date: September 10, 2014	Director
<u>/s/ Mark A. Serrienne</u> Mark A. Serrienne Date: September 10, 2014	Director
<u>/s/ James P. Sferra</u> James P. Sferra Date: September 10, 2014	Executive Vice President — Manufacturing, Secretary, and Director

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company's "forward looking statements" and disclosures as presented earlier in this Form 10-K in the "Safe Harbor" Statement, as well as the Company's consolidated financial statements and accompanying notes presented later in this Form 10-K should be referred to when reading Management's Discussion and Analysis of Financial Condition and Results of Operations.

Net Sales by Business Segment

<i>(In thousands)</i>	2014	2013	2012
Lighting Segment	\$ 227,628	\$ 206,363	\$ 199,610
Graphics Segment	46,166	46,770	42,131
Electronic Components Segment	19,491	20,333	18,515
All Other Category	6,178	7,324	8,146
Total Net Sales	<u>\$ 299,463</u>	<u>\$ 280,790</u>	<u>\$ 268,402</u>

Operating Income (Loss) by Business Segment

<i>(In thousands)</i>	2014	2013	2012
Lighting Segment	\$ 9,788	\$ 10,092	\$ 11,828
Graphics Segment	(2,802)	(1,253)	(1,938)
Electronic Components Segment	2,369	(916)	3,634
All Other Category	(138)	(1,451)	(1,114)
Corporate and Eliminations	(6,899)	(5,842)	(6,079)
Total Operating Income	<u>\$ 2,318</u>	<u>\$ 630</u>	<u>\$ 6,331</u>

Summary Comments

Fiscal 2014 net sales of \$299,463,000 increased \$18.7 million or 6.7% as compared to fiscal 2013. Net sales were favorably influenced by increased net sales of the Lighting Segment (up \$21.3 million or 10.3%). Net sales were unfavorably influenced by net sales of the Graphics Segment (down \$0.6 million or 1.3%), the Electronic Components Segment (down \$0.8 million or 4.1%) and the All Other Category (down \$1.1 million or 15.6%).

Fiscal 2014 operating income of \$2,318,000 increased 268% from operating income of \$630,000 in fiscal 2013. The \$1.7 million increase in operating income was the net result of increased net sales, an increase in gross profit as a percentage of net sales from 21.5% in fiscal 2013 to 21.8% in fiscal 2014, a \$1.2 million provision for a reserve against inventory deemed technologically obsolete and no longer useable at our Canadian operation in fiscal 2013 with no comparable expense in fiscal 2014, an increase in selling and administrative expenses primarily due to an increase in sales commissions and an increase in research and development expenses, an increase in warranty expense, a reduction of the contingent earn-out liability related to the Virticus acquisition (\$0.9 million as further discussed in Note 13) in fiscal 2013 with no comparable reduction of expense in fiscal 2014, and a goodwill impairment expense of \$2.4 million in fiscal 2013 with no comparable expense in fiscal 2014 partially offset by an intangible asset impairment expense of \$0.8 million in fiscal 2014 with no comparable expense in fiscal 2013.

The Company recorded intangible asset impairment expense in the Electronic Components Segment in fiscal 2014 totaling \$805,000. The Company recorded goodwill impairment expense in fiscal 2013 totaling \$2,413,000 in the Electronic Components Segment and in fiscal 2012 totaling \$258,000 in the Graphics Segment. There was no goodwill impairment expense in fiscal 2014 and there was no intangible asset impairment expense in fiscal 2013 or 2012.

The Company recorded acquisition-related and other professional fees expenses in fiscal 2012, totaling \$610,000 (\$25,000 of inventory adjustments related to acquisition fair value accounting on the opening balance sheet of LSI Controls (formerly LSI Virticus) and \$585,000 of acquisition transaction costs and related expenses for the acquisition of LSI Controls). There were no such similar significant expenses in fiscal 2014 and 2013. See also the section below on Non-GAAP Financial Measures.

The Company's total net sales related to solid-state LED technology in light fixtures and video screens for sports, advertising and entertainment markets have been recorded as indicated in the table below. In addition, the Company sells certain elements of graphic identification programs that contain solid-state LED light sources.

<i>(In thousands)</i>	LED Net Sales				
	FY 2014	FY 2013	% change (FY 14 vs FY 13)	FY 2012	% change (FY 13 vs FY 12)
First Quarter	\$ 25,293	\$ 23,809	6.2%	15,842	50.3%
Second Quarter	27,466	18,724	46.7%	20,471	(8.5)%
First Half	52,759	42,533	24.0%	36,313	17.1%
Third Quarter	25,452	18,794	35.4%	17,285	8.7%
Nine Months	78,211	61,327	27.5%	53,598	14.4%
Fourth Quarter	30,210	18,305	65.0%	19,802	(7.6)%
Full Year	\$ 108,421	\$ 79,632	36.2%	73,400	8.5%

LED net sales include sales of LED lighting products, certain graphics products containing LEDs, and LED video and sports screens. Fiscal 2014 LED net sales of \$108,421,000 were up \$28.8 million or 36.2% from the same period of the prior year. The \$108,421,000 total LED net sales and the \$28.8 million increase are primarily the result of Lighting Segment LED net sales of \$104.9 million (up \$27.5 million or 35.5%), which is comprised of \$99.9 million of light fixtures having solid-state LED technology and \$5.0 million related to video screens, Graphics Segment LED net sales of \$2.4 million (up \$1.1 million or 89.5%), and All Other Category LED net sales of \$1.1 million (up \$0.2 million or 19.3%).

Fiscal 2013 net sales of \$280,790,000 increased \$12.4 million or 4.6% as compared to fiscal 2012. Net sales were favorably influenced by increased net sales of the Lighting Segment (up \$6.8 million or 3.4%), the Graphics Segment (up \$4.6 million or 11.0%), and the Electronic Components Segment (up \$1.8 million or 9.8%). Net sales were unfavorably influenced by the All Other Category (down \$0.8 million or 10.1%).

Fiscal 2013 operating income of \$630,000 decreased 90% from operating income of \$6,331,000 in fiscal 2012. The \$5.7 million decrease in operating income was the net result of increased net sales, a decrease in gross profit as a percentage of net sales from 22.5% in fiscal 2012 to 21.5% in fiscal 2013, a \$1.2 million provision for a reserve against inventory deemed technologically obsolete and no longer useable at our Canadian operation in fiscal 2013 with no comparable expense in fiscal 2012, an increase in selling and administrative expenses primarily due to the net effect of increase in sales commissions, an increase in benefit and compensation expense, a reduction of the contingent earn-out liability related to the Virticus acquisition (\$0.9 million as further discussed in Note 13) in fiscal 2013 with no comparable reduction of expense in fiscal 2012, and an increase in goodwill impairment expense of \$2.2 million.

Non-GAAP Financial Measures

The Company believes it is appropriate to evaluate its performance after making adjustments to net income (loss) for the 2014, 2013 and 2012 fiscal years reported in conformity with accounting principals generally accepted in the United States of America (U.S. GAAP). Adjusted net income and earnings per share, which exclude the impact of the LSI Virticus acquisition transaction costs and related expenses, goodwill and intangible asset impairments, the reversal of the contingent Earn-Out liability, and the adjustment of the New York State tax code change are non-GAAP financial measures. We believe that these adjusted supplemental measures are useful in assessing the operating performance of our business. These supplemental measures are used by our management, including our chief operating decision maker, to evaluate business results. We exclude these items because they are not representative of the ongoing results of operations of our business. Below is a reconciliation of this non-GAAP measure to net income for the periods indicated.

<i>(In thousands, except per share data; unaudited)</i>	FY 2014		FY 2013		FY 2012	
	Amount	Diluted EPS	Amount	Diluted EPS	Amount	Diluted EPS
Reconciliation of net income (loss) to adjusted net income:						
Net income (loss) as reported	\$ 930	\$ 0.04	\$ (123)	\$ (0.01)	\$ 3,224	\$ 0.13
Adjustment for the New York State tax code change	362 ⁽¹⁾	0.01				
Adjustment for the reversal of a contingent Earn-Out liability, inclusive of income tax effect	—	—	(897) ⁽³⁾	(0.04)	—	—
Adjustment for the acquisition transaction costs, related expenses, and acquisition-related fair value inventory adjustments, inclusive of the income tax effect	—	—	—	—	373 ⁽⁴⁾	0.02
Adjustment for goodwill and intangible assets impairments, inclusive of the income tax effect	514 ⁽²⁾	0.02	2,413 ⁽⁵⁾	0.10	258 ⁽⁶⁾	0.01
Adjusted net income and earnings per share	<u>\$ 1,806</u>	\$ 0.07	<u>\$ 1,393</u>	\$ 0.06	<u>\$ 3,855</u>	\$ 0.16

The income tax effects of the adjustments in the tables above were calculated using the estimated U.S. effective income tax rates for the periods indicated. The income tax effects were as follows (in thousands):

- (1) n/a
- (2) \$291
- (3) \$0
- (4) \$237
- (5) \$0
- (6) \$0

Results of Operations

2014 Compared to 2013

Lighting Segment

(In thousands)

	2014	2013
Net Sales	\$ 227,628	\$ 206,363
Gross Profit	\$ 50,380	\$ 47,381
Operating Income	\$ 9,788	\$ 10,092

Lighting Segment net sales of \$227,628,000 in fiscal 2014 increased 10.3% from fiscal 2013 net sales of \$206,363,000. The Lighting Segment's net sales of light fixtures having solid-state LED technology totaled \$99.9 million in fiscal 2014, representing a \$28.5 or 40.0% increase from fiscal 2013 net sales of solid-state LED light fixtures of \$71.4 million. There was a reduction in the Company's traditional lighting sales (metal halide and fluorescent light sources) from fiscal 2013 to fiscal 2014 as customers converted from traditional lighting to light fixtures having solid-state LED technology. The Lighting Segment's net sales related to LED video screens totaled \$5.0 million in fiscal 2014, representing a \$1.0 million or 16.6% decrease from fiscal 2013 net sales of \$6.0 million.

Gross profit of \$50,380,000 in fiscal 2014 increased \$3.0 million or 6.3% from fiscal 2013, and decreased from 22.7% to 21.8% as a percentage of Lighting Segment net sales (customer plus inter-segment net sales). The increase in amount of gross profit is due to the net effect of increased net sales, competitive pricing pressures, a shift in product mix to a greater percentage of light fixtures containing LED solid-state technology, manufacturing inefficiencies due to strong demand of newly introduced LED lighting fixtures, an increase in inventory reserves against inventory deemed obsolete and no longer useable (\$0.2 million), increased freight expense, increased employee compensation and benefits expense (\$1.0 million), decreased customer relations expense (\$1.1 million), increased warranty expense (\$2.4 million), increased supplies expense (\$0.5 million), increased repairs and maintenance expense (\$0.2 million), increased outside service expense (\$0.5 million), and increased utilities expense (\$0.2 million).

Selling and administrative expenses of \$40,592,000 in fiscal 2014 increased \$3.3 million or 8.9% from fiscal 2013 primarily as the net result of decreased employee compensation and benefits expense (\$0.2 million), increased outside service expense (\$0.4 million), decreased bad debt expense (\$0.2 million), increased research and development expense (\$1.6 million), increased sales commission (\$2.7 million), and decreased amortization expense (\$1.7 million).

The Lighting Segment fiscal 2014 operating income of \$9,788,000 decreased \$0.3 million or 3.0% from operating income of \$10,092,000 in fiscal 2013. This decrease of \$0.3 million was primarily the net result of increased net sales, a lower gross margin as a percentage of sales, and increased selling and administrative expenses.

Graphics Segment

(In thousands)

	2014	2013
Net Sales	\$ 46,166	\$ 46,770
Gross Profit	\$ 6,568	\$ 7,597
Operating (Loss)	\$ (2,802)	\$ (1,253)

Graphics Segment net sales of \$46,166,000 in fiscal 2014 decreased 1.3% from fiscal 2013 net sales of \$46,770,000. The \$0.6 million decrease in Graphics Segment net sales is primarily the net result of image conversion programs and sales to several petroleum / convenience store customers (\$9.7 million net increase), two grocery retailers (\$10.2 million decrease), two national drug store retailers (\$2.4 million increase), two quick-service restaurant chains (\$1.6 million increase), several retail chains (\$1.9 million decrease), one banking customer (\$0.8 million increase), and changes in volume or completion of several other smaller graphics programs in various markets (\$3.0 million decrease). The Graphics Segment net sales of graphic identification products that contain solid-state LED light sources and LED lighting for signage totaled \$2.4 million in fiscal 2014, representing a \$1.1 million increase from fiscal 2013 net sales of \$1.3 million. Customer spending continued to remain soft and contributed to the operating losses in the Graphics Segment.

Gross profit of \$6,568,000 in fiscal 2014 decreased \$1.0 million or 13.5% from fiscal 2013, and decreased from 15.6% to 14.0% as a percentage of Graphics Segment net sales (customer plus inter-segment net sales). The change in the amount of gross profit is due to the net effect of decreased net sales, lower gross profit margins on product sales, and the write-down of certain inventory to lower of cost or market (\$0.1 million), partially offset by improved gross margin as a percentage of sales on installation sales, decreased freight costs as a percentage of sales, decreased benefits and compensation (\$0.2 million), decreased warranty costs (\$0.3 million), decreased customer relations expense (\$0.2 million), decreased supplies expense (\$0.2 million), and decreased outside service expense (\$0.1 million).

Selling and administrative expenses of \$9,370,000 in fiscal 2014 increased \$0.5 million or 5.9% from fiscal 2013 primarily as a result of increased benefits and compensation expense (\$0.5 million).

The Graphics Segment fiscal 2014 operating loss of \$(2,802,000) increased \$1.5 million from the operating loss of \$(1,253,000) in 2013 and is the net result of decreased net sales, decreased gross margin, and increased selling and administrative expenses.

Electronic Components Segment

(In thousands)

	2014	2013
Net Sales	\$ 19,491	\$ 20,333
Gross Profit	\$ 7,220	\$ 5,318
Operating Income (Loss)	\$ 2,369	\$ (916)

Electronic Components Segment net sales of \$19,491,000 in fiscal 2014 decreased 4.1% from fiscal 2013 net sales of \$20,333,000. The \$0.8 million decrease in Electronic Components Segment net sales is primarily the net result of a \$0.3 million decrease in sales to the telecommunications market, a \$0.4 million increase in sales to the transportation market, a \$0.2 million decrease in sales to original equipment manufacturers, a \$0.2 million increase in sales to the medical markets, and a \$0.7 million decrease in sales to various other markets. In addition to the Segment's decrease in customer sales, its inter-segment sales increased 29.0% due to increased intercompany demand of LED circuit board assemblies used in light fixtures having solid-state LED technology.

Gross profit of \$7,220,000 in fiscal 2014 increased \$1.9 million or 35.8% from fiscal 2013, and increased from 11.3% to 13.4% as a percentage of Electronic Components Segment net sales (customer plus inter-segment net sales). The \$1.9 million increase in amount of gross profit is due to the net effect of decreased customer net sales, increased inter-segment sales, increased employee compensation and benefit expense (\$0.9 million), decreased outside service expense (\$0.3 million), decreased warranty expense (\$0.4 million), and decreased customer relations expense (\$0.1 million).

Selling and administrative expenses of \$4,046,000 in fiscal 2014 increased \$0.2 million or 5.9% from fiscal 2013 as the result of increased research and development expense related to lighting controls (\$0.4 million), and decreased outside service expense (\$0.1 million). In fiscal 2014, the Electronic Components Segment recorded an intangible asset impairment expense of \$0.8 million with no comparable intangible asset impairment expense in fiscal 2013. In fiscal 2013, the Electronic Components Segment recorded a goodwill impairment expense of \$2.4 million with no comparable goodwill impairment expense in fiscal 2014.

The Electronic Components Segment fiscal 2014 operating income of \$2,369,000 is an improvement from the \$(916,000) operating loss in fiscal 2013. The \$3.3 million increase from an operating loss in fiscal 2013 to operating income in fiscal 2014 was the net result of decreased net customer sales, increased intersegment sales, increased gross profit, increased selling and administrative expenses and a goodwill impairment charge of \$2.4 million in fiscal 2013 with no comparable goodwill impairment expense in fiscal 2013 partially offset with a \$0.8 million intangible asset impairment expense in fiscal 2014 with no comparable intangible asset impairment expense in fiscal 2013.

All Other Category

(In thousands)

	2014	2013
Net Sales	\$ 6,178	\$ 7,324
Gross Profit	\$ 1,701	\$ 613
Operating (Loss)	\$ (138)	\$ (1,451)

All Other Category net sales of \$6,178,000 in fiscal 2014 decreased \$1.1 million or 15.6% from fiscal 2013 net sales of \$7,324,000. The \$1.1 million decrease in the All Other Category net sales is primarily the net result of net decreased sales of menu board systems (\$1.8 million), increased project management net sales (\$0.2 million), and increased net sales of LED video screen and specialty LED lighting sales to the Entertainment and other markets (\$0.4 million). Inter-segment sales increased 3.7% mostly due to LSI Adapt providing intercompany project management support.

Gross profit of \$1,701,000 in fiscal 2014 increased \$1.1 million or 177% from fiscal 2013. The \$1.1 million increase in gross profit is the net result of decreased net customer sales, a change in the mix of product and services sold to a more profitable mix, increased inter-segment sales, and an inventory reserve of \$1.2 million against inventory deemed technologically obsolete and no longer useable at our Canadian operation in fiscal 2013 with no comparable expense in fiscal 2014.

Selling and administrative expenses of \$1,839,000 in fiscal 2014 decreased \$0.2 million or 10.9% as compared to the same period of the prior year. The decrease in selling and administrative expense is primarily the result of decreased research and development expense (\$0.1 million).

The All Other Category fiscal 2014 operating loss of \$(138,000) compares to an operating loss of \$(1,451,000) in fiscal 2013. This \$1.3 million decrease in operating loss was the net result of decreased net sales, an increase in gross profit most notably impacted by a decrease in obsolete inventory reserves, and decreased selling and administrative expenses.

Corporate and Eliminations

(In thousands)

	2014	2013
Gross Profit	\$ (571)	\$ (499)
Operating (Loss)	\$ (6,899)	\$ (5,842)

The negative gross profit relates to the intercompany profit in inventory elimination.

Selling and administrative expenses of \$6,328,000 in fiscal 2014 increased \$1.0 million or 18.4% from fiscal 2013. The increase in expense is the net result of decreased employee compensation and benefit expense (\$0.2 million), increased depreciation expense (\$0.5 million), increased repairs and maintenance expense (\$0.1 million), increased outside service expense (\$0.5 million), and a reduction of the contingent Earn-Out liability related to the Virticus acquisition in fiscal 2013 with no comparable reduction of expense in fiscal 2014 (\$0.9 million).

Consolidated Results

The Company reported net interest expense of \$51,000 in fiscal 2014 as compared to net interest expense of \$15,000 in fiscal 2013. Commitment fees related to the unused portions of the Company's lines of credit and interest income on invested cash are included in the net interest expense amounts in both fiscal 2014 and 2013. The major factor that contributed to the increase in net interest expense from fiscal 2013 to fiscal 2014 was related to the fiscal 2013 reduction of the accrued interest expense related to the reduction of the contingent earn-out liability associated with the Virticus acquisition, with no comparable reduction of accrued interest expense in fiscal 2014.

The \$1,337,000 income tax expense in fiscal 2014 represents a consolidated effective tax rate of 59.0%. This is the net result of an income tax rate of 44.5% for the Company's U.S. operations, influenced by certain permanent book-tax differences that were significant relative to the amount of taxable income, an increase in the valuation reserve against New York State tax credits of \$362,000 resulting from changes to the New York tax code, by certain U.S. federal and Canadian income tax credits, by a benefit related to uncertain income tax positions, and by a full valuation reserve on the Company's Canadian tax position. The \$738,000 income tax expense in fiscal 2013 represents consolidated tax expense related to a pre-tax profit of \$630,000. The relationship between tax expense which is greater than pre-tax profit is the net result of an income tax rate of 33.6% for the Company's U.S. operations, influenced by certain permanent book-tax differences that were significant relative to the amount of taxable income (most notably the \$2.4 million goodwill impairment), by certain U.S. federal and Canadian income tax credits, by a benefit related to uncertain income tax positions, and most notably by a full valuation reserve on the Company's Canadian tax position.

The Company reported net income of \$930,000 in fiscal 2014 as compared to a net loss of \$(123,000) in fiscal 2013. The increase from a net loss in fiscal 2013 to net income in fiscal 2014 is primarily the net result of increased net sales, increased gross profit, increased operating expenses, the net effect of decreased goodwill impairment partially offset by increased intangible asset impairment expense, and increased income tax expense. Diluted income per share was \$0.04 in fiscal 2014 as compared to a diluted loss per share of \$(0.01) in fiscal 2013. The weighted average common shares outstanding for purposes of computing the diluted loss per share in fiscal 2014 were 24,546,000 shares as compared to 24,313,000 shares when computing earnings per share in fiscal 2013.

2013 Compared to 2012

Lighting Segment

(In thousands)

	2013	2012
Net Sales	\$ 206,363	\$ 199,610
Gross Profit	\$ 47,381	\$ 46,463
Operating Income	\$ 10,092	\$ 11,828

Lighting Segment net sales of \$206,363,000 in fiscal 2013 increased 3.4% from fiscal 2012 net sales of \$199,610,000. The \$6.8 million increase in Lighting Segment net sales is primarily the net result of a \$1.2 million or 1.3% net increase in lighting sales to our niche and national accounts markets (petroleum / convenience store sales were up 5%, retail national net sales were down 46%, quick-service restaurant market sales were up 87%, and automotive market net sales were up 52%), a \$1.2 million or 7.5% increase in lighting sales to the international markets, a \$4.1 million or 220% increase in LED video screens, and a \$0.2 million or 0.2% increase in commissioned net sales to the commercial / industrial lighting market. The Company replaced certain commissioned sales representatives during fiscal 2013, which has the short-term effect of disrupting sales with a view towards strategic sales growth in the long-term. Sales of lighting to the petroleum / convenience store market represented 28% of Lighting Segment net sales in both fiscal years 2013 and 2012. Lighting Segment net sales of lighting to this, the Company's largest niche market, were up 5.0% from last year to \$58,326,000. The petroleum / convenience store market has been, and will continue to be, a very important niche market for the Company. The Lighting Segment's net sales of light fixtures having solid-state LED technology totaled \$71.4 million in fiscal 2013, representing a 3.7% increase from fiscal 2012 net sales of solid-state LED light fixtures of \$68.9 million. The Lighting Segment's net sales related to LED video screens totaled \$6.0 million in fiscal 2013, representing a \$4.1 million or 220% increase from fiscal 2012 net sales of \$1.9 million.

Gross profit of \$47,381,000 in fiscal 2013 increased \$0.9 million or 2.0% from fiscal 2012, and decreased from 23.0% to 22.7% as a percentage of Lighting Segment net sales (customer plus inter-segment net sales). The increase in amount of gross profit is due to the net effect of increased net sales, competitive pricing pressures, efficiencies gained in direct labor, increased overhead absorption, an increase in inventory reserves against inventory deemed obsolete and no longer useable (\$0.8 million), increased employee compensation and benefits expense (\$2.2 million), increased customer relations expense (\$0.7 million), decreased warranty expense (\$1.0 million), increased supplies expense (\$0.4 million), decreased outside service expense (\$0.3 million), and decreased depreciation expense (\$0.3 million).

Selling and administrative expenses of \$37,289,000 in fiscal 2013 increased \$2.7 million or 7.7% from fiscal 2012 primarily as the net result of increased employee compensation and benefits expense (\$1.2 million), decreased customer relations expense (\$0.2 million), increased research and development expense (\$0.7 million), increased sales commission (\$1.5 million), and decreased amortization expense (\$0.3 million).

The Lighting Segment fiscal 2013 operating income of \$10,092,000 decreased \$1.7 million or 14.7% from operating income of \$11,828,000 in fiscal 2012. This decrease of \$1.7 million was primarily the net result of increased net sales, competitive pricing pressures, increased overhead absorption, increased commission expense, increased research and development expense, and increased employee compensation and benefit expense.

Graphics Segment

(In thousands)

	2013	2012
Net Sales	\$ 46,770	\$ 42,131
Gross Profit	\$ 7,597	\$ 6,765
Operating (Loss)	\$ (1,253)	\$ (1,938)

Graphics Segment net sales of \$46,770,000 in fiscal 2013 increased 11.0% from fiscal 2012 net sales of \$42,131,000. The \$4.6 million increase in Graphics Segment net sales is primarily the net result of image conversion programs and sales to several petroleum / convenience store customers (\$0.9 million net decrease), two grocery retailers (\$6.7 million increase), two national drug store retailers (\$2.5 million decrease), two quick-service restaurant chains (\$1.5 million decrease), several retail chains (\$1.7 million increases) and changes in volume or completion of several other smaller graphics programs (\$1.1 million increase). Sales of graphics products and services to the petroleum / convenience store market represented 39% and 37% of Graphics Segment net sales in fiscal years 2013 and 2012, respectively. Graphics Segment net sales of graphics to this, the Company's largest niche market, were up 15.3% from fiscal 2012 to \$18,063,000. The petroleum / convenience store market has been, and will continue to be, a very important niche market for the Company. The Graphics Segment net sales of graphic identification products that contain solid-state LED light sources and LED lighting for signage totaled \$1.3 million in fiscal 2013 compared to \$1.0 million in fiscal 2012.

Gross profit of \$7,597,000 in fiscal 2013 increased \$0.8 million or 12.3% from fiscal 2012, and increased from 15.5% to 15.6% as a percentage of Graphics Segment net sales (customer plus inter-segment net sales). The increase in amount of gross profit is due to the net effect of increased net sales, increased overhead absorption, increased freight costs as a percentage of sales, increased benefits and compensation (\$0.7 million), increased warranty costs (\$0.3 million), increased customer relations expense (\$0.1 million); decreased repairs and maintenance expense (\$0.2 million); and increased outside service expense (\$0.1 million).

Selling and administrative expenses of \$8,850,000 in fiscal 2013 increased \$0.4 million or 4.8% from fiscal 2012 primarily as a result of increased benefits and compensation expense (\$0.4 million) and increased outside services (\$0.1 million). In fiscal 2012, the Graphics Segment recorded a goodwill impairment expense of \$0.3 million with no comparable expense in fiscal 2013.

The Graphics Segment fiscal 2013 operating loss of \$(1,253,000) improved \$0.7 million from the operating loss of \$(1,938,000) in fiscal 2012 and is the net result of increased sales, increased gross margin, increased selling and administrative expenses, and a goodwill impairment charge in fiscal 2012 with no comparable expense in fiscal 2013.

Electronic Components Segment

(In thousands)

	2013	2012
Net Sales	\$ 20,333	\$ 18,515
Gross Profit	\$ 5,318	\$ 5,815
Operating Income (Loss)	\$ (916)	\$ 3,634

Electronic Components Segment net sales of \$20,333,000 in fiscal 2013 increased 9.8% from fiscal 2012 net sales of \$18,515,000. The \$1.8 million increase in Electronic Components Segment net sales is primarily the net result of a \$0.5 million decrease in sales to the telecommunications market, a \$1.5 million increase in sales to the transportation market, a \$0.1 million decrease in sales to original equipment manufacturers, a \$0.3 million decrease in sales to the medical markets, and a \$1.3 million increase in sales to various other markets. In addition to the Segment's increase in customer sales, its inter-segment sales increased 20.5% due to increased intercompany demand of LED circuit board assemblies used in light fixtures having solid-state LED technology.

Gross profit of \$5,318,000 in fiscal 2013 decreased \$0.5 million or 8.5% from fiscal 2012, and decreased from 14.3% to 11.3% as a percentage of Electronic Components Segment net sales (customer plus inter-segment net sales). The \$0.5 million decrease in amount of gross profit is due to the net effect of increased customer net sales, the effect of increased inter-segment sales on the gross profit margin percentage, competitive pricing pressures, increased material costs, increased employee compensation and benefit expense (\$0.6 million), increased supplies (\$0.2 million), increased outside service expense (\$0.4 million), increased rent expense (\$0.1 million), and a net increase in warranty expense (\$0.2 million). The largest impact affecting the drop in gross profit is LSI Controls (formerly LSI Virticus). Current sales of lighting controls have not been enough to cover fixed overhead expenses. Besides traditional manufacturing expenses, the company also incurred warranty charges of \$0.3 million related to the first generation control systems.

Selling and administrative expenses of \$3,821,000 in fiscal 2013 increased \$1.6 million or 75.2% from fiscal 2012 primarily as the result of increased employee compensation and benefits expense (\$0.3 million), increased research and development expense related to lighting controls (\$0.7 million), increased amortization expense (\$0.1 million), and increased outside service expense (\$0.2 million). The Company's lighting controls business is contributing to most of the increase in selling and administrative expenses with a full fiscal year of expenses in fiscal 2013 compared to approximately three months of expense recorded in fiscal 2012. In fiscal 2013, the Electronic Components Segment recorded a goodwill impairment expense of \$2.4 million with no comparable expense in fiscal 2012.

The Electronic Components Segment fiscal 2013 operating loss of \$(916,000) decreased \$4.6 million from operating income of \$3,634,000 in fiscal 2012. The \$4.6 million decrease from operating income in fiscal 2012 to an operating loss in fiscal 2013 was the net result of increased net sales, decreased gross profit (mostly due to the Company's lighting controls business, LSI Controls), increased selling and administrative expenses (most notably the increase in research and development costs associated with LSI Controls, as the Company invested in new product offerings), and a goodwill impairment charge of \$2.4 million in fiscal 2013 with no comparable expense in fiscal 2012.

All Other Category

(In thousands)

	2013	2012
Net Sales	\$ 7,324	\$ 8,146
Gross Profit	\$ 613	\$ 1,554
Operating (Loss)	\$ (1,451)	\$ (1,114)

All Other Category net sales of \$7,324,000 in fiscal 2013 decreased \$0.8 million or 10.1% from fiscal 2012 net sales of \$8,146,000. The \$0.8 million decrease in the All Other Category net sales is primarily the net result of net increased sales of menu board systems (\$0.2 million), decreased project management net sales (\$0.2 million), and decreased net sales of LED video screen and specialty LED lighting sales to the Entertainment and other markets (\$0.8 million). Inter-segment sales increased 15.6% primarily as a result of LSI Adapt providing increased intercompany project management support.

Gross profit of \$613,000 in fiscal 2013 decreased \$0.9 million or 60.6% from fiscal 2012. The \$0.9 million decrease in gross profit is the net result of decreased net customer sales, increased inter-segment sales at a lower gross margin as a percentage of sales, and an inventory reserve of \$1.2 million against inventory deemed technologically obsolete and no longer useable at our Canadian operation.

Selling and administrative expenses of \$2,064,000 in fiscal 2013 decreased \$0.6 million or 22.6% as compared to the same period of the prior year. The decrease in selling and administrative expense is the net result of increased benefit and compensation expense (\$0.1 million) offset by lower research and development expense (\$0.6 million).

The All Other Category fiscal 2013 operating loss of \$(1,451,000) compares to an operating loss of \$(1,114,000) in fiscal 2012. This \$0.3 million increase in operating loss was the net result of decreased net sales, an increase in obsolete inventory reserves, and decreased selling and administrative expenses.

Corporate and Eliminations

(In thousands)

	2013	2012
Gross Profit	\$ (499)	\$ (284)
Operating (Loss)	\$ (5,842)	\$ (6,079)

The negative gross profit relates to the intercompany profit in inventory elimination.

Selling and administrative expenses of \$5,343,000 in fiscal 2013 decreased \$0.5 million or 7.8% from the prior year. The decrease in expenses is the net result of increased employee compensation and benefit expense (\$0.9 million), decreased depreciation expense (\$0.3 million), increased repairs and maintenance expense (\$0.1 million), acquisition deal costs of \$0.4 million in fiscal 2012 with no comparable expense in fiscal 2013, and a reduction of the contingent Earn-Out liability related to the Virticus acquisition (\$0.9 million as further discussed in Note 13).

Consolidated Results

The Company reported net interest expense of \$15,000 in fiscal 2013 as compared to net interest expense of \$140,000 in fiscal 2012. Commitment fees related to the unused portions of the Company's lines of credit and interest income on invested cash are included in the net interest expense amounts in both fiscal 2013 and 2012. The primary reasons for the drop in net interest expense from fiscal 2012 to fiscal 2013 can be attributed to the payoff of a mortgage in fiscal 2012 for which there was no corresponding mortgage interest expense in fiscal 2013 and the reversal in fiscal 2013 of the accrued interest expenses associated with the Earn-Out liability.

The \$738,000 income tax expense in fiscal 2013 represents consolidated tax expense related to a pre-tax profit of \$630,000. The relationship between tax expense which is greater than pre-tax profit is the net result of an income tax rate of 33.6% for the Company's U.S. operations, influenced by certain permanent book-tax differences that were significant relative to the amount of taxable income (most notably the \$2.4 million goodwill impairment), by certain U.S. federal and Canadian income tax credits, by a benefit related to uncertain income tax positions, and most notably by a full valuation reserve on the Company's Canadian tax position. The \$2,967,000 income tax expense in fiscal 2012 represents a consolidated effective tax rate of 47.9%. This is the net result of an income tax rate of 38.9% for the Company's U.S. operations influenced by certain temporary and permanent book-tax differences that were significant relative to the amount of taxable income, by the goodwill impairment of \$258,000 for which there was no tax effect, by an increase in a valuation reserve on a state income tax net operating loss carryover, by certain U.S. federal and Canadian income tax credits, by a benefit related to uncertain income tax positions, and by a full valuation reserve on the Company's Canadian tax position.

The Company reported a net loss of \$(123,000) in fiscal 2013 as compared to net income of \$3,224,000 in fiscal 2012. The decrease from net income in fiscal 2012 to a net loss in fiscal 2013 is primarily the net result of increased net sales, decreased gross profit, increased operating expenses, increased goodwill impairment and decreased income tax expense. Diluted loss per share was \$(0.01) in fiscal 2013 as compared to diluted earnings per share of \$0.13 in fiscal 2012. The weighted average common shares outstanding for purposes of computing the diluted loss per share in fiscal 2013 were 24,385,000 shares as compared to 24,352,000 shares when computing earnings per share in fiscal 2012.

Liquidity and Capital Resources

The Company considers its level of cash on hand, borrowing capacity, current ratio and working capital levels to be its most important measures of short-term liquidity. For long-term liquidity indicators, the Company believes its ratio of long-term debt to equity and its historical levels of net cash flows from operating activities to be the most important measures.

At June 30, 2014, the Company had working capital of \$76.8 million, compared to \$76.7 million at June 30, 2013. The ratio of current assets to current liabilities was 3.62 to 1 as compared to a ratio of 3.93 to 1 at June 30, 2013. The \$0.1 million increase in working capital from June 30, 2013 to June 30, 2014 was primarily related to the net effect of increased cash and cash equivalents (\$1.1 million), increased accounts payable (\$1.2 million), increased accrued expenses (\$1.9 million), decreased net accounts receivable (\$3.2 million), increased net inventory (\$3.3 million), increased other current assets (\$1.5 million), and increased refundable income tax (\$0.5 million). The Company has a strategy of aggressively managing working capital, including the reduction of the accounts receivable days sales outstanding (DSO) and reduction of inventory levels, without reducing service to our customers.

The Company generated \$11.6 million of cash from operating activities in fiscal 2014 as compared to cash from operating activities of \$8.9 million in fiscal 2013. This \$2.7 million increase in net cash flows from operating activities is primarily the net result of a decrease rather than an increase in accounts receivable (favorable change of \$5.1 million), a greater increase in inventories (unfavorable change of \$1.0 million), a smaller increase in refundable income tax (favorable change of \$0.7 million), a net profit in fiscal 2014 compared to a net loss in fiscal 2013 (favorable change of \$1.1 million), a decrease in goodwill and intangible asset impairment expense (unfavorable change of \$1.6 million), less of an increase in accrued expenses and other (unfavorable change of \$1.4 million), a decrease in obsolete inventory expense (unfavorable change of \$1.5 million), a decrease in the Earn-Out liability adjustment in fiscal 2013 with no adjustment in fiscal 2014 (favorable change of \$0.9 million), and a reduction in depreciation and amortization expense (unfavorable change of \$1.0 million).

Net accounts receivable were \$42.8 million and \$46.0 million at June 30, 2014 and 2013, respectively. The decrease of \$3.2 million in net receivables is primarily due to the net effect of a higher amount of net sales in the fourth quarter of fiscal 2014 as compared to the fourth quarter of fiscal 2013, more than offset by a lower days sales outstanding (DSO). The DSO decreased to 50 days at June 30, 2014 from 60 days at June 30, 2013. In particular, a \$4.7 million payment was received from a single customer in early July 2013, beyond agreed to payment terms. Had this payment been received prior to the end of fiscal 2013, DSO would have been 53 days as of June 2013 and the accounts receivable balance as of June 30, 2013 would have been lower than the June 30, 2014 account receivable balance. The Company believes that its receivables are ultimately collectible or recoverable, net of certain reserves, and that aggregate allowances for doubtful accounts are adequate.

Net inventories at June 30, 2014 increased \$3.3 million from June 30, 2013 levels. The increase of \$3.3 million is the result of an increase in gross inventory of \$2.5 million and by a decrease in inventory obsolescence reserves of \$0.8 million. Based on a strategy of balancing inventory reductions with customer service and the timing of shipments, net inventory increases occurred in fiscal 2014 in the Lighting Segment of approximately \$3.0 million, in the Graphics Segment of approximately \$0.2 million, and in the Electronic Segment of approximately \$0.4 million. Inventory decreased in the All Other Category approximately \$0.3 million.

Cash provided from operations and borrowing capacity under two lines of credit are the Company's primary source of liquidity. The Company has an unsecured \$30 million revolving line of credit for its U.S. operations and an unsecured \$5 million revolving line of credit for its Canadian operation. As of August 22, 2014, there were no borrowings against either line of credit. Both lines of credit expire in the third quarter of fiscal 2017. The Company believes that \$35 million total lines of credit plus cash flows from operating activities are adequate for the Company's fiscal 2015 operational and capital expenditure needs. The Company is in compliance with all of its loan covenants.

The Company used \$5.0 million of cash related to investing activities in fiscal 2014 as compared to a use of \$7.5 million in the prior year, resulting in a favorable change of \$2.5 million. Capital expenditures for fiscal 2014 decreased \$2.3 million to \$5.2 million from fiscal 2013. The primary change in capital expenditures between years relates to an upgrade of the Company's ERP software in fiscal 2013 with no comparable capital expenditure in fiscal 2014. Other than the upgrade to the Company's ERP software, capital spending in both periods is primarily for tooling and equipment. There was also a favorable change in the proceeds from the sale of equipment of \$0.2 million.

The Company used \$5.5 million of cash related to financing activities in fiscal 2014 as compared to a use of cash of \$8.6 million in fiscal 2013, resulting in a favorable change of \$3.1 million. The change between years is primarily attributed to decreased dividend payments (favorable change of \$2.9 million), mostly due to an additional cash dividend payment of \$0.12 per share paid in December 2012 with no similar additional dividend payment in fiscal 2014. There was also an increase in the exercise of stock options (favorable change of \$0.2 million).

The Company has, or could have, on its balance sheet financial instruments consisting primarily of cash and cash equivalents, short-term investments, revolving lines of credit, and long-term debt. The fair value of these financial instruments approximates carrying value because of their short-term maturity and/or variable, market-driven interest rates.

Off-Balance Sheet Arrangements

The Company has no financial instruments with off-balance sheet risk and has no off-balance sheet arrangements.

Contractual Obligations as of June 30, 2014 (a)	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Acquisition Contingent Earn-Out Obligations (b)	\$ --	\$ --	\$ --	\$ --	\$ --
Operating Lease Obligations	4,784	1,406	2,293	1,085	--
Purchase Obligations	31,089	30,797	193	82	17
Total Contractual Obligations	<u>\$ 35,873</u>	<u>\$ 32,203</u>	<u>\$ 2,486</u>	<u>\$ 1,167</u>	<u>\$ 17</u>

- (a) The liability for uncertain tax positions of \$1.0 million is not included due to the uncertainty of timing of payments.
- (b) Refer to Note 13 — Commitments and Contingencies, for an explanation as to the elimination of the Earn-Out liability.

Cash Dividends

On August 20, 2014, the Board of Directors declared a regular quarterly cash dividend of \$0.06 per share (approximately \$1,442,000) payable September 9, 2014 to shareholders of record on September 2, 2013. The Company's cash dividend policy is that the indicated annual dividend rate will be set between 50% and 70% of the expected net income for the current fiscal year. Consideration will also be given by the Board to declare a special cash or stock dividend. The declaration and amount of any cash and stock dividends will be determined by the Company's Board of Directors, in its discretion, based upon its evaluation of earnings, cash flow, capital requirements and future business developments and opportunities, including acquisitions. The Company's indicated annual rate for payment of a cash dividend for fiscal 2015 has yet to be determined and is currently under evaluation.

Critical Accounting Policies and Estimates

The Company is required to make estimates and judgments in the preparation of its financial statements that affect the reported amounts of assets, liabilities, revenues and expenses, and related footnote disclosures. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. The Company continually reviews these estimates and their underlying assumptions to ensure they remain appropriate. The Company believes the items discussed below are among its most significant accounting policies because they utilize estimates about the effect of matters that are inherently uncertain and therefore are based on management's judgment. Significant changes in the estimates or assumptions related to any of the following critical accounting policies could possibly have a material impact on the financial statements.

Revenue Recognition

Revenue is recognized when title to goods and risk of loss have passed to the customer, there is persuasive evidence of a purchase arrangement, delivery has occurred or services have been rendered, and collectability is reasonably assured. Revenue is typically recognized at time of shipment. In certain arrangements with customers, as is the case with the sale of some of our solid-state LED video screens, revenue is recognized upon customer acceptance of the video screen at the job site. Sales are recorded net of estimated returns, rebates and discounts. Amounts received from customers prior to the recognition of revenue are accounted for as customer pre-payments and are included in accrued expenses.

The Company has four sources of revenue: revenue from product sales; revenue from installation of products; service revenue generated from providing integrated design, project and construction management, site engineering and site permitting; and revenue from shipping and handling.

Product revenue is recognized on product-only orders upon passing of title and risk of loss, generally at time of shipment. However, product revenue related to orders where the customer requires the Company to install the product is recognized when the product is installed. Other than normal product warranties or the possibility of installation or post-shipment service, support and maintenance of certain solid state LED video screens, billboards, or active digital signage, the Company has no post-shipment responsibilities.

Installation revenue is recognized when the products have been fully installed. The Company is not always responsible for installation of products it sells and has no post-installation responsibilities, other than normal warranties.

Service revenue from integrated design, project and construction management, and site permitting is recognized when all products have been installed at each retail site of the customer.

Shipping and handling revenue coincides with the recognition of revenue from sale of the product.

The Company evaluates the appropriateness of revenue recognition in accordance with Accounting Standards Codification (“ASC”) Subtopic 605-25, Revenue Recognition: Multiple-Element Arrangements. In situations where the Company is responsible for re-imaging programs with multiple sites, each site is viewed as a separate unit of accounting and has stand-alone value to the customer. Revenue is recognized upon the Company’s complete performance at the location, which may include a site survey, graphics products, lighting products, and installation of products. The selling price assigned to each site is based upon an agreed upon price between the Company and its customer and reflects the estimated selling price for that site relative to the selling price for sites with similar image requirements.

The Company also evaluates the appropriateness of revenue recognition in accordance with ASC Subtopic 985-605, “Software: Revenue Recognition.” Our solid-state LED video screens, billboards and active digital signage contain software elements which the Company has determined are incidental and therefore excluded from the scope of ASC Subtopic 985-605.

Income Taxes

The Company accounts for income taxes in accordance with ASC Topic 740, “Income Taxes.” Accordingly, deferred income taxes are provided on items that are reported as either income or expense in different time periods for financial reporting purposes than they are for income tax purposes. Deferred income tax assets and liabilities are reported on the Company’s balance sheet. Significant management judgment is required in developing the Company’s income tax provision, including the estimation of taxable income and the effective income tax rates in the multiple taxing jurisdictions in which the Company operates, the estimation of the liability for uncertain income tax positions, the determination of deferred tax assets and liabilities, and any valuation allowances that might be required against deferred tax assets.

The Company operates in multiple taxing jurisdictions and is subject to audit in these jurisdictions. The Internal Revenue Service and other tax authorities routinely review the Company’s tax returns. These audits can involve complex issues which may require an extended period of time to resolve. In management’s opinion, an adequate provision has been made for potential adjustments arising from these examinations.

In September 2013, the Internal Revenue Service issued Treasury Decision 9636, which enacted final tax regulations regarding the capitalization and expensing of amounts paid to acquire, produce, or improve tangible property. The regulations also include guidance regarding the retirement of depreciable property. The regulations are required to be effective in taxable years beginning on or after January 1, 2014, although taxpayers may choose to apply them in taxable years beginning on or after January 1, 2012. The Company has reviewed the impact of the final regulations and the anticipated impact to the financial statements is immaterial.

The Company is recording estimated interest and penalties related to potential underpayment of income taxes as a component of tax expense in the Consolidated Statements of Operations. The reserve for uncertain tax positions is not expected to change significantly in the next twelve months.

Asset Impairment

Carrying values of goodwill and other intangible assets with indefinite lives are reviewed at least annually for possible impairment in accordance with ASC Topic 350, “Intangibles – Goodwill and Other.” The Company may first assess qualitative factors in order to determine if goodwill is impaired in accordance with ASU 2011 – 08, “Intangible – Goodwill and Other (Topic 350).” If through the qualitative assessment it is determined that it is more likely than not that goodwill is not impaired, no further testing is required. If it is determined that it is more likely than not that goodwill is impaired, or if the Company elects not to first assess qualitative factors, the Company’s impairment testing continues with the estimation of the fair value of goodwill and indefinite-lived intangible assets using a combination of a market approach and an income (discounted cash flow) approach, at the reporting unit level, that requires significant management judgment with respect to revenue and expense growth rates, changes in working capital and the selection and use of an appropriate discount rate. The estimates of fair value of reporting units are based on the best information available as of the date of the assessment. The use of different assumptions would increase or decrease estimated discounted future operating cash flows and could increase or decrease an impairment charge. Company management uses its judgment in assessing whether assets may have become impaired between annual impairment tests. Indicators such as adverse business conditions, economic factors and technological change or competitive activities may signal that an asset has become impaired.

Carrying values for long-lived tangible assets and definite-lived intangible assets, excluding goodwill and indefinite-lived intangible assets, are reviewed for possible impairment as circumstances warrant as required by ASC Topic 360, "Property, Plant, and Equipment." Impairment reviews are conducted at the judgment of Company management when it believes that a change in circumstances in the business or external factors warrants a review. Circumstances such as the discontinuation of a product or product line, a sudden or consistent decline in the forecast for a product, changes in technology or in the way an asset is being used, a history of negative operating cash flow, or an adverse change in legal factors or in the business climate, among others, may trigger an impairment review. The Company's initial impairment review to determine if a potential impairment charge is required is based on an undiscounted cash flow analysis at the lowest level for which identifiable cash flows exist. The analysis requires judgment with respect to changes in technology, the continued success of product lines and future volume, revenue and expense growth rates, and discount rates.

Credit and Collections

The Company maintains allowances for doubtful accounts receivable for probable estimated losses resulting from either customer disputes or the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in their inability to make the required payments, the Company may be required to record additional allowances or charges against income. The Company determines its allowance for doubtful accounts by first considering all known collectability problems of customers' accounts, and then applying certain percentages against the various aging categories based on the due date of the remaining receivables. The resulting allowance for doubtful accounts receivable is an estimate based upon the Company's knowledge of its business and customer base, and historical trends. The amount ultimately not collected may differ from the reserve established, particularly in the case where percentages are applied against aging categories. In all cases, it is management's goal to carry a reserve against the Company's accounts receivable which is adequate based upon the information available at that time so that net accounts receivable is properly stated. The Company also establishes allowances, at the time revenue is recognized, for returns and allowances, discounts, pricing and other possible customer deductions. These allowances are based upon historical trends.

Warranty Reserves

The Company maintains a warranty reserve which is reflective of its limited warranty policy. The warranty reserve covers the estimated future costs to repair or replace defective product or installation services, whether the product is returned or it is repaired in the field. The warranty reserve is first determined based upon known claims or issues, and then by the application of a specific percentage of sales to cover general claims. The percentage applied to sales to calculate general claims is based upon historical claims as a percentage of sales. Management addresses the adequacy of its warranty reserves on a quarterly basis to ensure the reserve is accurate based upon the most current information.

Inventory Reserves

The Company maintains an inventory reserve for probable obsolescence of its inventory. The Company first determines its obsolete inventory reserve by considering specific known obsolete items, and then by applying certain percentages to specific inventory categories based upon inventory turns. The Company uses various tools, in addition to inventory turns, to identify which inventory items have the potential to become obsolete. Significant judgment is used to establish obsolescence reserves and management adjusts these reserves as more information becomes available about the ultimate disposition of the inventory item. Management values inventory at lower of cost or market.

New Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board issued ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." This amended guidance is intended to eliminate the diversity that is in practice with regard to the financial statement presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amended guidance is effective for fiscal years and interim periods within those years, beginning after December 15, 2013, or the Company's fiscal year 2015, with early adoption permissible. The adoption of this guidance is not expected to have a material impact on the financial statements.

In June 2014, the Financial Accounting Standards Board issued ASU 2014-09, "Revenue from Contracts with Customers." This amended guidance supersedes and replaces all existing U.S. GAAP revenue recognition guidance. The guidance established a new revenue recognition model, changes the basis for deciding when revenue is recognized over a point in time, provides new and more detailed guidance on specific revenue topics, and expands and improves disclosures about revenue. The amended guidance is effective for fiscal years and interim periods within those years, beginning after December 15, 2016, or the Company's fiscal year 2018. The Company has not yet determined the impact the amended guidance will have on its financial statements.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Management of LSI Industries Inc. and subsidiaries (the "Company" or "LSI") is responsible for the preparation and accuracy of the financial statements and other information included in this report. LSI's Management is also responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Securities Exchange Act Rules 13a-15(f). Under the supervision and with the participation of Management, including LSI's principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting as of June 30, 2014, based on the criteria set forth in "the 1992 Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

A control system, no matter how well conceived and operated, can provide only reasonable assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the reality that judgments in decision making can be faulty, the possibility of human error, and the circumvention or overriding of the controls and procedures.

In meeting its responsibility for the reliability of the financial statements, the Company depends upon its system of internal accounting controls. The system is designed to provide reasonable assurance that assets are safeguarded and that transactions are properly authorized and recorded. The system is supported by policies and guidelines, and by careful selection and training of financial management personnel. The Company also has a Disclosure Controls Committee, whose responsibility is to help ensure appropriate disclosures and presentation of the financial statements and notes thereto. Additionally, the Company has an Internal Audit Department to assist in monitoring compliance with financial policies and procedures.

The Board of Directors meets its responsibility for overview of the Company's financial statements through its Audit Committee which is composed entirely of independent Directors who are not employees of the Company. The Audit Committee meets periodically with Management and Internal Audit to review and assess the activities of each in meeting their respective responsibilities. Grant Thornton LLP has full access to the Audit Committee to discuss the results of their audit work, the adequacy of internal accounting controls, and the quality of financial reporting.

Based upon LSI's evaluation, the Company's principal executive officer and principal financial officer concluded that internal control over financial reporting was effective as of June 30, 2014. We reviewed the results of Management's assessment with the Audit Committee of our Board of Directors. Additionally, our independent registered public accounting firm audited and independently assessed the effectiveness of the Company's internal control over financial reporting. Grant Thornton LLP, an independent registered public accounting firm, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting, which is presented in the financial statements.

Robert J. Ready

President and Chief Executive Officer
(Principal Executive Officer)

Ronald S. Stowell

Vice President, Chief Financial Officer, and Treasurer
(Principal Financial Officer)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
LSI Industries Inc.

We have audited the internal control over financial reporting of LSI Industries Inc. (an Ohio corporation) and subsidiaries (the “Company”) as of June 30, 2014, based on criteria established in the 1992 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report On Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2014, based on criteria established in the 1992 *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended June 30, 2014, and our report dated September 10, 2014 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Cincinnati, Ohio
September 10, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
LSI Industries Inc.

We have audited the accompanying consolidated balance sheets of LSI Industries Inc. (an Ohio corporation) and subsidiaries (the “Company”) as of June 30, 2014 and 2013, and the related consolidated statements of operations, shareholders’ equity, and cash flows for each of the three years in the period ended June 30, 2014. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15. These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LSI Industries Inc. and subsidiaries as of June 30, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of June 30, 2014, based on criteria established in the 1992 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated September 10, 2014 expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Cincinnati, Ohio
September 10, 2014

LSI INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the years ended June 30, 2014, 2013, and 2012
(In thousands, except per share data)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net sales	\$ 299,463	\$ 280,790	\$ 268,402
Cost of products and services sold	<u>234,165</u>	<u>220,380</u>	<u>208,089</u>
Gross profit	65,298	60,410	60,313
Selling and administrative expenses	62,175	57,367	53,724
Goodwill and intangible asset impairments	<u>805</u>	<u>2,413</u>	<u>258</u>
Operating income	2,318	630	6,331
Interest (income)	(17)	(47)	(25)
Interest expense	<u>68</u>	<u>62</u>	<u>165</u>
Income before income taxes	2,267	615	6,191
Income tax expense	<u>1,337</u>	<u>738</u>	<u>2,967</u>
Net income (loss)	<u>\$ 930</u>	<u>\$ (123)</u>	<u>\$ 3,224</u>
Earnings (loss) per common share (see Note 3)			
Basic	<u>\$ 0.04</u>	<u>\$ (0.01)</u>	<u>\$ 0.13</u>
Diluted	<u>\$ 0.04</u>	<u>\$ (0.01)</u>	<u>\$ 0.13</u>
Weighted average common shares outstanding			
Basic	<u>24,388</u>	<u>24,313</u>	<u>24,298</u>
Diluted	<u>24,546</u>	<u>24,313</u>	<u>24,352</u>

The accompanying notes are an integral part of these financial statements.

LSI INDUSTRIES INC.
CONSOLIDATED BALANCE SHEETS
June 30, 2014 and 2013
(In thousands, except shares)

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 9,013	\$ 7,949
Accounts and notes receivable, less allowance for doubtful accounts of \$294 and \$346, respectively	42,753	45,991
Inventories	45,408	42,093
Refundable income taxes	1,973	1,435
Asset held for sale	611	--
Prepaid and other current assets	<u>6,319</u>	<u>5,445</u>
Total current assets	106,077	102,913
Property, Plant and Equipment, at cost		
Land	6,918	7,015
Buildings	37,027	37,889
Machinery and equipment	75,533	71,535
Construction in progress	<u>221</u>	<u>3,464</u>
	119,699	119,903
Less accumulated depreciation	<u>(75,417)</u>	<u>(74,553)</u>
Net property, plant and equipment	44,282	45,350
Goodwill	10,508	10,508
Other Intangible Assets, net	7,227	8,579
Other Long-Term Assets, net	<u>1,794</u>	<u>1,829</u>
Total assets	<u>\$ 169,888</u>	<u>\$ 169,179</u>

The accompanying notes are an integral part of these financial statements.

	<u>2014</u>	<u>2013</u>
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 13,658	\$ 12,429
Accrued expenses	<u>15,631</u>	<u>13,781</u>
Total current liabilities	29,289	26,210
Other Long-Term Liabilities	2,187	1,279
Commitments and contingencies (Note 13)		
Shareholders' Equity		
Preferred shares, without par value; Authorized 1,000,000 shares, none issued	—	—
Common shares, without par value; Authorized 40,000,000 shares; Outstanding 24,122,284 and 24,057,266 shares, respectively	104,064	102,492
Retained earnings	<u>34,348</u>	<u>39,198</u>
Total shareholders' equity	138,412	141,690
Total liabilities & shareholders' equity	<u>\$ 169,888</u>	<u>\$ 169,179</u>

The accompanying notes are an integral part of these financial statements.

LSI INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the years ended June 30, 2014, 2013, and 2012
(In thousands, except per share data)

	Common Shares		Retained Earnings	Total
	Number of Shares	Amount		
Balance at June 30, 2011	24,047	\$ 100,944	\$ 50,274	\$ 151,218
Net income	—	—	3,224	3,224
Stock compensation awards	7	48	—	48
Purchase of treasury shares, net	(21)	(141)	—	(141)
Deferred stock compensation	—	124	—	124
Stock option expense	—	410	—	410
Stock options exercised, net	3	14	—	14
Dividends — \$0.23 per share	—	—	(5,529)	(5,529)
Balance at June 30, 2012	24,036	101,399	47,969	149,368
Net (loss)	—	—	(123)	(123)
Stock compensation awards	8	57	—	57
Purchase of treasury shares, net	(22)	(150)	—	(150)
Deferred stock compensation	—	169	—	169
Stock option expense	—	842	—	842
Stock options exercised, net	35	175	—	175
Dividends — \$0.36 per share	—	—	(8,648)	(8,648)
Balance at June 30, 2013	24,057	102,492	39,198	141,690
Net income	—	—	930	930
Stock compensation awards	23	193	—	193
Purchase of treasury shares, net	(19)	(124)	—	(124)
Deferred stock compensation	—	99	—	99
Stock option expense	—	1,005	—	1,005
Stock options exercised, net	61	399	—	399
Dividends — \$0.24 per share	—	—	(5,780)	(5,780)
Balance at June 30, 2014	<u>24,122</u>	<u>\$ 104,064</u>	<u>\$ 34,348</u>	<u>\$ 138,412</u>

The accompanying notes are an integral part of these financial statements.

LSI INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended June 30, 2014, 2013, and 2012
(In thousands)

	2014	2013	2012
Cash Flows From Operating Activities			
Net income (loss)	\$ 930	\$ (123)	\$ 3,224
Non-cash items included in net income (loss)			
Depreciation and amortization	6,226	7,197	7,805
Goodwill and intangible asset impairment	805	2,413	258
Earn-out liability adjustment	—	(897)	—
Deferred income taxes	856	263	309
Deferred compensation plan	99	169	124
Stock option expense	1,005	842	410
Issuance of common shares as compensation	193	57	48
Loss on disposition of fixed assets	36	7	18
Allowance for doubtful accounts	6	269	360
Inventory obsolescence reserve	1,464	2,957	1,453
Change in certain assets and liabilities, net of acquisitions			
Accounts and notes receivable	3,232	(1,848)	205
Inventories	(4,779)	(3,774)	7,784
Refundable income taxes	(538)	(1,208)	1,568
Accounts payable	1,229	917	1,722
Accrued expenses and other	269	1,644	(1,299)
Customer prepayments	526	(35)	371
Net cash flows provided by operating activities	<u>11,559</u>	<u>8,850</u>	<u>24,360</u>
Cash Flows From Investing Activities			
Purchases of property, plant, and equipment	(5,245)	(7,571)	(3,436)
Proceeds from sale of fixed assets	255	38	3
Acquisition of businesses, net of cash received	—	—	(2,973)
Net cash flows (used in) investing activities	<u>(4,990)</u>	<u>(7,533)</u>	<u>(6,406)</u>
Cash Flows From Financing Activities			
Payment of long-term debt	—	—	(1,099)
Cash dividends paid	(5,780)	(8,648)	(5,529)
Purchase of treasury shares	(188)	(175)	(154)
Issuance of treasury shares	64	25	13
Exercise of stock options	399	175	14
Net cash flows (used in) financing activities	<u>(5,505)</u>	<u>(8,623)</u>	<u>(6,755)</u>
Increase (decrease) in cash and cash equivalents	1,064	(7,306)	11,199
Cash and cash equivalents at beginning of year	7,949	15,255	4,056
Cash and cash equivalents at end of year	<u>\$ 9,013</u>	<u>\$ 7,949</u>	<u>\$ 15,255</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation:

The consolidated financial statements include the accounts of LSI Industries Inc. (an Ohio corporation) and its subsidiaries (collectively, the “Company”), all of which are wholly owned. All intercompany transactions and balances have been eliminated in consolidation.

Revenue Recognition:

Revenue is recognized when title to goods and risk of loss have passed to the customer, there is persuasive evidence of a purchase arrangement, delivery has occurred or services have been rendered, and collectability is reasonably assured. Revenue from product sales is typically recognized at time of shipment. In certain arrangements with customers, as is the case with the sale of some of our solid-state LED (light emitting diode) video screens, revenue is recognized upon customer acceptance of the video screen at the job site. Sales are recorded net of estimated returns, rebates and discounts. Amounts received from customers prior to the recognition of revenue are accounted for as customer pre-payments and are included in accrued expenses.

The Company has four sources of revenue: revenue from product sales; revenue from installation of products; service revenue generated from providing integrated design, project and construction management, site engineering and site permitting; and revenue from shipping and handling.

Product revenue is recognized on product-only orders upon passing of title and risk of loss, generally at time of shipment. However, product revenue related to orders where the customer requires the Company to install the product is recognized when the product is installed. Other than normal product warranties or the possibility of installation or post-shipment service, support and maintenance of certain solid state LED video screens, billboards, or active digital signage, the Company has no post-shipment responsibilities.

Installation revenue is recognized when the products have been fully installed. The Company is not always responsible for installation of products it sells and has no post-installation responsibilities, other than normal warranties.

Service revenue from integrated design, project and construction management, and site permitting is recognized when all products at each customer site have been installed.

Shipping and handling revenue coincides with the recognition of revenue from sale of the product.

The Company evaluates the appropriateness of revenue recognition in accordance with Accounting Standards Codification (“ASC”) Subtopic 605-25, Revenue Recognition: Multiple-Element Arrangements. In situations where the Company is responsible for re-imaging programs with multiple sites, each site is viewed as a separate unit of accounting and has stand-alone value to the customer. Revenue is recognized upon the Company’s complete performance at the location, which may include a site survey, graphics products, lighting products, and installation of products. The selling price assigned to each site is based upon an agreed upon price between the Company and its customer and reflects the estimated selling price for that site relative to the selling price for sites with similar image requirements.

The Company also evaluates the appropriateness of revenue recognition in accordance with ASC Subtopic 985-605, “Software: Revenue Recognition.” Our solid-state LED video screens, billboards and active digital signage contain software elements which the Company has determined are incidental and therefore excluded from the scope of ASC Subtopic 985-605.

Credit and Collections:

The Company maintains allowances for doubtful accounts receivable for probable estimated losses resulting from either customer disputes or the inability of its customers to make required payments. If the financial condition of the Company’s customers were to deteriorate, resulting in their inability to make the required payments, the Company may be required to record additional allowances or charges against income. The Company determines its allowance for doubtful accounts by first considering all known collectability problems of customers’ accounts, and then applying certain percentages against the various aging categories based on the due date of the remaining receivables. The resulting allowance for doubtful accounts receivable is an estimate based upon the Company’s knowledge of its business and customer base, and historical trends. The Company also establishes allowances, at the time revenue is recognized, for returns, discounts, pricing and other possible customer deductions. These allowances are based upon historical trends.

The following table presents the Company's net accounts receivable at the dates indicated.

<i>(In thousands)</i>	June 30, 2014	June 30, 2013
Accounts receivable	\$ 43,047	\$ 46,337
less Allowance for doubtful accounts	(294)	(346)
Accounts receivable, net	<u>\$ 42,753</u>	<u>\$ 45,991</u>

Cash and Cash Equivalents:

The cash balance includes cash and cash equivalents which have original maturities of less than three months. The Company maintains balances at financial institutions in the United States and Canada. The balances at financial institutions in Canada are not covered by insurance. In the United States, the FDIC limit for insurance coverage on non-interest bearing accounts is \$250,000. As of June 30, 2014 and June 30, 2013, the Company had bank balances of \$12,367,000 and \$11,145,000, respectively, without insurance coverage. Of these amounts, \$741,000 and \$613,000 were held in foreign bank accounts as of June 30, 2014 and June 30, 2013, respectively.

Inventories:

Inventories are stated at the lower of cost or market. Cost of inventories includes the cost of purchased raw materials and components, direct labor, as well as manufacturing overhead which is generally applied to inventory based on direct labor and on material content. Cost is determined on the first-in, first-out basis.

Property, Plant and Equipment and Related Depreciation:

Property, plant and equipment are stated at cost. Major additions and betterments are capitalized while maintenance and repairs are expensed. For financial reporting purposes, depreciation is computed on the straight-line method over the estimated useful lives of the assets as follows:

Buildings (in years)	28 - 40
Machinery and equipment (in years)	3 - 10
Computer software (in years)	3 - 8

Costs related to the purchase, internal development, and implementation of the Company's fully integrated enterprise resource planning/business operating software system are either capitalized or expensed in accordance with ASC Subtopic 350-40, "Intangibles – Goodwill and Other: Internal-Use Software." Leasehold improvements are depreciated over the shorter of fifteen years or the remaining term of the lease.

The company is in the process of selling one of two buildings at its Woonsocket, Rhode Island operation, which is included in the Graphics Segment. The sale of this property is the result of the consolidation of the operations into the remaining facility in order to eliminate redundancies and improve manufacturing efficiencies. The sale of the building is expected to be complete in the first quarter of fiscal 2015. The selling price of the building is in excess of its carrying value. The asset held for sale is separately disclosed on the balance sheet.

The Company recorded \$5,411,000, \$4,702,000 and \$5,174,000 of depreciation expense in the years ended June 30, 2014, 2013 and 2012, respectively.

Intangible Assets:

Intangible assets consisting of customer relationships, trade names and trademarks, patents, technology and software, and non-compete agreements are recorded on the Company's balance sheet. The definite-lived intangible assets are being amortized to expense over periods ranging between five and twenty years. The Company evaluates definite-lived intangible assets for permanent impairment when triggering events are identified. Neither indefinite-lived intangible assets nor the excess of cost over fair value of assets acquired ("goodwill") are amortized, however they are subject to review for impairment. See additional information about goodwill and intangibles in Note 6.

Fair Value:

The Company has financial instruments consisting primarily of cash and cash equivalents, revolving lines of credit, and on occasion long-term debt. The fair value of these financial instruments approximates carrying value because of their short-term maturity and/or variable, market-driven interest rates. The Company has no financial instruments with off-balance sheet risk.

Fair value measurements of nonfinancial assets and nonfinancial liabilities are primarily used in goodwill and other intangible asset impairment analyses, in the purchase price of acquired companies (if any), and in the valuation of the contingent earn-out. The fair value measurement of these nonfinancial assets and nonfinancial liabilities is based on significant inputs not observable in the market and thus represent Level 3 measurements as defined in ASC 820, "Fair Value Measurement."

Product Warranties:

The Company offers a limited warranty that its products are free of defects in workmanship and materials. The specific terms and conditions vary somewhat by product line, but generally cover defective products returned within one to five years from the date of shipment. The Company records warranty liabilities to cover the estimated future costs for repair or replacement of defective returned products as well as products that need to be repaired or replaced in the field after installation. The Company calculates its liability for warranty claims by applying estimates to cover unknown claims, as well as estimating the total amount to be incurred for known warranty issues. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Changes in the Company's warranty liabilities, which are included in accrued expenses in the accompanying consolidated balance sheets, during the periods indicated below were as follows:

<i>(In thousands)</i>	June 30, 2014	June 30, 2013
Balance at beginning of the period	\$ 1,424	\$ 1,121
Additions charged to expense	3,816	2,134
Deductions for repairs and replacements	<u>(2,578)</u>	<u>(1,831)</u>
Balance at end of the period	<u>\$ 2,662</u>	<u>\$ 1,424</u>

Employee Benefit Plans:

The Company has a defined contribution retirement plan and a discretionary profit sharing plan covering substantially all of its non-union employees in the United States, and a non-qualified deferred compensation plan covering certain employees. The costs of employee benefit plans are charged to expense and funded annually. Total costs were \$1,961,000 in 2014, \$1,932,000 in 2013, and \$960,000 in 2012. Effective July 1, 2012, the Company increased the employer contribution percentage from 2% to 4%.

Research and Development Costs:

Research and development expenses are costs directly attributable to new product development, including the development of new technology for both existing and new products, and consist of salaries, payroll taxes, employee benefits, materials, supplies, depreciation and other administrative costs. The Company follows the requirements of ASC Subtopic 985-20, "Software: Costs of Software to be Sold, Leased, or Marketed," and expenses as research and development all costs associated with development of software used in solid-state LED products. All costs are expensed as incurred and are included in selling and administrative expenses. Research and development costs related to both product and software development totaled \$8,226,000, \$6,480,000 and \$5,511,000 for the fiscal years ended June 30, 2014, 2013 and 2012, respectively.

Advertising Expense:

The Company recorded \$322,000, \$280,000, and \$328,000 of advertising expense in 2014, 2013 and 2012, respectively. Advertising costs are expensed the first time the advertising occurs. Expense related to printed product or capabilities literature, brochures, etc. is recorded on a ratable basis over the useful life of that printed media.

Earnings Per Common Share:

The computation of basic earnings per common share is based on the weighted average common shares outstanding for the period net of treasury shares held in the Company's non-qualified deferred compensation plan. The computation of diluted earnings per share is based on the weighted average common shares outstanding for the period and includes common share equivalents. Common share equivalents include the dilutive effect of stock options, contingently issuable shares and common shares to be issued under a deferred compensation plan, all of which totaled 462,000 shares in fiscal 2014, 356,000 shares in fiscal 2013, and 316,000 shares in fiscal 2012. See further discussion in Note 3.

New Accounting Pronouncements:

In July 2012, the Financial Accounting Standards Board issued ASU 2012-02, "Intangibles – Goodwill and Other (Topic 350): Testing Long-Lived Intangible Assets for Impairment." This amended guidance is intended to simplify the test of indefinite-lived intangible assets for impairment by allowing companies to first assess qualitative factors to determine whether or not it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value as the basis for determining whether it is necessary to perform the two-step impairment test. Previous guidance required companies to perform an annual indefinite-lived intangible asset impairment test. The amended guidance is effective for annual and interim tests performed for fiscal years beginning after September 15, 2012, or the Company's fiscal year 2014, with early adoption permissible. The adoption of this standard in fiscal 2014 did not have an impact on the financial statements.

In September 2013, the Internal Revenue Service issued Treasury Decision 9636, which enacted final tax regulations regarding the capitalization and expensing of amounts paid to acquire, produce, or improve tangible property. The regulations also include guidance regarding the retirement of depreciable property. The regulations are required to be effective in taxable years beginning on or after January 1, 2014, although taxpayers may choose to apply them in taxable years beginning on or after January 1, 2012. The Company has reviewed the impact of the final regulations and the anticipated impact to the financial statements is immaterial.

In June 2014, the Financial Accounting Standards Board issued ASU 2014-09, "Revenue from Contracts with Customers." This amended guidance supersedes and replaces all existing U.S. GAAP revenue recognition guidance. The guidance established a new revenue recognition model, changes the basis for deciding when revenue is recognized over a point in time, provides new and more detailed guidance on specific revenue topics, and expands and improves disclosures about revenue. The amended guidance is effective for fiscal years and interim periods within those years, beginning after December 15, 2016, or the Company's fiscal year 2018. The Company has not yet determined the impact the amended guidance will have on its financial statements.

Comprehensive Income:

The Company does not have any comprehensive income items other than net income (loss). The functional currency of the Company's Canadian operation is the U.S. dollar.

Subsequent Events:

On August 22, 2014, the Company signed a non-binding letter of intent to sell the stock of its wholly-owned subsidiary LSI Saco Technologies, located in Montreal, Canada. It is likely a loss will be recognized on the sale, but the actual amount of the loss will not be known until the sale is complete. The loss on the sale is expected to be between \$500,000 and \$1,000,000. The \$5 million unsecured revolving line of credit for this Canadian operation (See Note 7) will be terminated once the sale is complete. The Company anticipates the sale to be completed in the first or second quarter of fiscal 2015.

The assets and liabilities of LSI Saco are comprised of the following at June 30, 2014 and 2013:

<i>Amounts in thousands</i>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Cash	\$ 741	\$ 613
Accounts Receivable (net)	860	996
Inventory (net)	342	697
Other Current Assets	105	468
PP&E (net)	187	329
Intangible Assets	622	674
Other Long-Term Asset	3	7
Total Assets	<u>\$ 2,860</u>	<u>\$ 3,784</u>
Accounts Payable and Accrued Expenses	\$ 195	\$ 319
Total Liabilities	<u>\$ 195</u>	<u>\$ 319</u>

The Company has evaluated subsequent events for potential recognition and disclosure through the date the consolidated financial statements were filed. No other items were identified during this evaluation that required adjustment to or disclosure in the accompanying financial statements.

Reclassifications:

Certain prior year amounts have been reclassified to conform to the current year presentation within the cash flows from operating activities section of the statement of cash flows. These reclassifications have no impact on net income, earnings per share, or total operating cash flows.

Use of Estimates:

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 2 — BUSINESS SEGMENT INFORMATION

ASC Topic 280, "Segment Reporting," establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information of those segments to be presented in financial statements. Operating segments are identified as components of an enterprise for which separate discrete financial information is available for evaluation by the chief operating decision maker (the Company's Chief Executive Officer) in making decisions on how to allocate resources and assess performance. While the Company has twelve operating segments, it has only three reportable operating business segments (Lighting, Graphics, and Electronic Components), an All Other Category, and Corporate and Eliminations.

The Lighting Segment includes outdoor, indoor, and landscape lighting utilizing both traditional and LED light sources, that has been fabricated and assembled for the commercial, industrial and multi-site retail lighting markets, the Company's primary niche markets (petroleum / convenience store market, automotive dealership market, and quick service restaurant market), and LED solid state digital sports video screens. LED video screens are designed and manufactured by the Company's Lighting Segment and by LSI Saco in the All Other Category. The Lighting Segment includes the operations of LSI Ohio Operations, LSI Metal Fabrication, LSI MidWest Lighting and LSI Lightron. These operations have been integrated, have similar economic characteristics and meet the other requirements for aggregation in segment reporting.

The Graphics Segment designs, manufactures and installs exterior and interior visual image elements related to traditional graphics along with digital signage. These products are used in visual image programs in several markets, including the petroleum / convenience store market and multi-site retail operations. The Graphics Segment includes the operations of Grady McCauley, LSI Retail Graphics and LSI Integrated Graphic Systems, which have been aggregated as such facilities manufacture two-dimensional graphics with the use of screen and digital printing, fabricate three-dimensional structural graphics sold in the multi-site retail and petroleum / convenience store markets, and each exhibit similar economic characteristics and meet the other requirements for aggregation in segment reporting.

The Electronic Components Segment designs, engineers and manufactures custom designed electronic circuit boards, assemblies and sub-assemblies, and various products used in various applications including the control of solid-state LED lighting and metal halide lighting. The Electronic Components Segment includes the operations of LSI ADL Technology as well as LSI Controls (formerly LSI Virticus). LSI ADL Technology sells electronic circuit boards, assemblies and sub-assemblies directly to customers and also has significant inter-segment sales to the Lighting Segment. LSI Controls sells lighting control systems directly to customers and to the Lighting Segment. Products produced by this segment may have applications in the Company's other LED product lines such as digital scoreboards, advertising ribbon boards and billboards.

The All Other Category includes the Company's operating segments that neither meet the aggregation criteria, nor the criteria to be a separate reportable segment. The Operations of LSI Images (menu board systems), LSI Adapt (implementation, installation and program management services related to products of the Graphics and Lighting Segments) and LSI Saco Technologies (designs and produces high-performance light engines, large format video screens using solid-state LED technology, and certain specialty LED lighting) are combined in the All Other Category.

The Company's corporate administration activities are reported in a line item titled Corporate and Eliminations. This primarily includes intercompany profit in inventory eliminations, expense related to certain corporate officers and support staff, the Company's internal audit staff, expense related to the Company's Board of Directors, stock option expense for options granted to corporate administration employees, certain consulting expenses, investor relations activities, and a portion of the Company's legal, auditing and professional fee expenses. In fiscal 2013 and fiscal 2012, all stock option expense was reported in Corporate and Eliminations. In fiscal 2014, stock option expense was reported in each segment to match with compensation and benefit expense. Corporate identifiable assets primarily consist of cash, invested cash (if any), refundable income taxes, and deferred income tax assets.

There were no customers or customer programs representing a concentration of 10% or more of the Company's net sales in the fiscal year ended June 30, 2014, 2013 and 2012. The Company had a concentration of receivables with Ahold USA totaling \$5.3 million or 11.6% of total net accounts receivable as of June 30, 2013. There was no concentration of accounts receivable at June 30, 2014 or 2012.

Summarized financial information for the Company's reportable business segments is provided for the indicated periods and as of June 30, 2014, June 30, 2013, June 30, 2012:

<i>(In thousands)</i>	2014	2013	2012
Net Sales:			
Lighting Segment	\$ 227,628	\$ 206,363	\$ 199,610
Graphics Segment	46,166	46,770	42,131
Electronic Components Segment	19,491	20,333	18,515
All Other Category	6,178	7,324	8,146
Total Net Sales	<u>\$ 299,463</u>	<u>\$ 280,790</u>	<u>\$ 268,402</u>
Operating Income (Loss):			
Lighting Segment	\$ 9,788	\$ 10,092	\$ 11,828
Graphics Segment	(2,802)	(1,253)	(1,938)
Electronic Components Segment	2,369	(916)	3,634
All Other Category	(138)	(1,451)	(1,114)
Corporate and Eliminations	(6,899)	(5,842)	(6,079)
Total Operating Income	<u>\$ 2,318</u>	<u>\$ 630</u>	<u>\$ 6,331</u>
Capital Expenditures:			
Lighting Segment	\$ 3,294	\$ 2,081	\$ 1,606
Graphics Segment	461	350	576
Electronic Components Segment	726	1,528	558
All Other Category	20	115	182
Corporate and Eliminations	744	3,497	514
Total Capital Expenditures	<u>\$ 5,245</u>	<u>\$ 7,571</u>	<u>\$ 3,436</u>
Depreciation and Amortization:			
Lighting Segment	\$ 2,845	\$ 4,434	\$ 4,953
Graphics Segment	940	896	884
Electronic Components Segment	1,497	1,357	1,130
All Other Category	171	191	223
Corporate and Eliminations	773	319	615
Total Depreciation and Amortization	<u>\$ 6,226</u>	<u>\$ 7,197</u>	<u>\$ 7,805</u>

	June 30, 2014	June 30, 2013
Identifiable Assets:		
Lighting Segment	\$ 96,499	\$ 90,536
Graphics Segment	22,312	28,792
Electronic Components Segment	30,788	30,926
All Other Category	4,987	6,361
Corporate and Eliminations	15,302	12,564
Total Identifiable Assets	<u>\$ 169,888</u>	<u>\$ 169,179</u>

The segment net sales reported above represent sales to external customers. Segment operating income, which is used in management's evaluation of segment performance, represents net sales less all operating expenses including impairment of goodwill, but excluding interest expense and interest income. Identifiable assets are those assets used by each segment in its operations. Corporate identifiable assets primarily consist of cash, invested cash (if any), refundable income taxes, and deferred income tax assets.

The Company records a 10% mark-up on intersegment revenues. Any intersegment profit in inventory is eliminated in consolidation. Intersegment revenues were eliminated in consolidation as follows:

<i>(In thousands)</i>	2014	2013	2012
Lighting Segment intersegment net sales	\$ 3,534	\$ 2,746	\$ 2,457
Graphics Segment intersegment net sales	\$ 843	\$ 1,854	\$ 1,581
Electronic Components intersegment net sales	\$ 34,238	\$ 26,522	\$ 22,019
All Other Category intersegment net sales	\$ 6,957	\$ 6,710	\$ 5,805

The Company considers its geographic areas to be: 1) the United States; and 2) Canada. The majority of the Company's operations are in the United States, with one operation in Canada. The geographic distribution of the Company's net sales and long-lived assets are as follows:

<i>(In thousands)</i>	2014	2013	2012
Net Sales (a):			
United States	\$ 298,089	\$ 279,818	\$ 266,590
Canada	1,374	972	1,812
Total Net Sales	<u>\$ 299,463</u>	<u>\$ 280,790</u>	<u>\$ 268,402</u>
	June 30, 2014	June 30, 2013	June 30, 2012
Long-Lived Assets (b):			
United States	\$ 45,886	\$ 46,843	\$ 44,286
Canada	190	336	322
Total Long-Lived Assets	<u>\$ 46,076</u>	<u>\$ 47,179</u>	<u>\$ 44,608</u>

- a. Net sales are attributed to geographic areas based upon the location of the operation making the sale.
- b. Long-lived assets include property, plant and equipment, and other long term assets. Goodwill and intangible assets are not included in long-lived assets.

NOTE 3 — EARNINGS PER COMMON SHARE

The following table presents the amounts used to compute basic and diluted earnings per common share, as well as the effect of dilutive potential common shares on weighted average shares outstanding (in thousands, except per share data):

<i>(In thousands, except per share data)</i>	2014	2013	2012
BASIC EARNINGS PER SHARE			
Net income (loss)	\$ 930	\$ (123)	\$ 3,224
Weighted average shares outstanding during the period, net of treasury shares (a)	24,084	24,029	24,036
Weighted average shares outstanding in the Deferred Compensation Plan during the period	304	284	262
Weighted average shares outstanding	24,388	24,313	24,298
Basic earnings (loss) per share	\$ 0.04	\$ (0.01)	\$ 0.13
DILUTED EARNINGS PER SHARE			
Net income (loss)	\$ 930	\$ (123)	\$ 3,224
Weighted average shares outstanding			
Basic	24,388	24,313	24,298
Effect of dilutive securities (b):			
Impact of common shares to be issued under stock option plans, and contingently issuable shares, if any	158	—	54
Weighted average shares outstanding (c)	24,546	24,313	24,352
Diluted earnings (loss) per share	\$ 0.04	\$ (0.01)	\$ 0.13

- (a) Includes shares accounted for like treasury stock in accordance with Accounting Standards Codification Topic 710, Compensation — General.
- (b) Calculated using the “Treasury Stock” method as if dilutive securities were exercised and the funds were used to purchase common shares at the average market price during the period.
- (c) Options to purchase 1,974,775 common shares, 2,027,450 common shares, and 1,782,868 common shares at June 30, 2014, 2013, and 2012, respectively, were not included in the computation of diluted earnings per share because the exercise price was greater than the average fair market value of the common shares.

NOTE 4 — INVENTORIES

The following information is provided as of the dates indicated:

<i>(In thousands)</i>	June 30, 2014	June 30, 2013
Inventories:		
Raw materials	\$ 30,278	\$ 28,113
Work-in-process	5,393	4,959
Finished goods	9,737	9,021
Total Inventories	\$ 45,408	\$ 42,093

NOTE 5 — ACCRUED EXPENSES

The following information is provided as of the dates indicated:

<i>(In thousands)</i>	June 30, 2014	June 30, 2013
Accrued Expenses:		
Compensation and benefits	\$ 7,134	\$ 8,023
Customer prepayments	1,473	947
Accrued sales commissions	1,814	1,595
Accrued warranty	2,662	1,424
Other accrued expenses	2,548	1,792
Total Accrued Expenses	<u>\$ 15,631</u>	<u>\$ 13,781</u>

NOTE 6 — GOODWILL AND OTHER INTANGIBLE ASSETS

Carrying values of goodwill and other intangible assets with indefinite lives are reviewed at least annually for possible impairment in accordance with ASC Topic 350, "Intangibles – Goodwill and Other." The Company may first assess qualitative factors in order to determine if goodwill and indefinite-lived intangible assets are impaired. If through the qualitative assessment it is determined that it is more likely than not that goodwill and indefinite-lived assets are not impaired, no further testing is required. If it is determined more likely than not that goodwill and indefinite-lived assets are impaired, or if the Company elects not to first assess qualitative factors, the Company's impairment testing continues with the estimation of the fair value of goodwill and indefinite-lived intangible assets using a combination of a market approach and an income (discounted cash flow) approach, at the reporting unit level, that requires significant management judgment with respect to revenue and expense growth rates, changes in working capital and the selection and use of an appropriate discount rate. The estimates of fair value of reporting units are based on the best information available as of the date of the assessment. The use of different assumptions would increase or decrease estimated discounted future operating cash flows and could increase or decrease an impairment charge. Company management uses its judgment in assessing whether assets may have become impaired between annual impairment tests. Indicators such as adverse business conditions, economic factors and technological change or competitive activities may signal that an asset has become impaired.

The Company identified its reporting units in conjunction with its annual goodwill impairment testing. The Company relies upon a number of factors, judgments and estimates when conducting its impairment testing. These include operating results, forecasts, anticipated future cash flows and marketplace data, to name a few. There are inherent uncertainties related to these factors and judgments in applying them to the analysis of goodwill impairment.

The Company performed an interim goodwill impairment test as of December 31, 2012 on LSI Controls (formerly LSI Virticus), one of its reporting units that contain goodwill. LSI Controls was acquired March 19, 2012 and is part of the Electronic Components Segment. The reduction of the sales forecast that was originally used to value the Earn-Out liability related to the LSI Controls acquisition and which ultimately led to an adjustment to the Earn-Out liability in the second quarter of fiscal 2013 (see Note 13), led management to conclude that an interim goodwill impairment test was required on the LSI Controls reporting unit. As a result of the test, it was determined that goodwill associated with this reporting unit was impaired. Of the original goodwill of \$2,413,000, it was determined that \$2,141,000 or 89% of the original goodwill value was impaired. (As part of the annual goodwill test performed as of March 1, 2013, the remaining \$272,000 of goodwill associated with LSI Controls was found to be fully impaired.) A similar test was not performed on the three other reporting units that contain goodwill because the triggering events that indicate the potential impairment of goodwill did not exist.

As of March 1, 2013, the Company performed its annual goodwill impairment test on the four reporting units that contain goodwill. The goodwill impairment test of one of the reporting units in the Electronic Components Segment that contains goodwill passed with an estimated business enterprise value that was \$10.5 million or 42% above the carrying value of this reporting unit. The goodwill impairment test of a reporting unit in the All Other Category passed with an estimated business enterprise value that was \$2.1 million or 182% above the carrying value of the reporting unit. The goodwill impairment test of a reporting unit in the Lighting Segment passed with a margin in excess of \$8.5 million or 10% above its carrying value. The fourth reporting unit that contains goodwill that is also in the Electronic Components Segment, LSI Controls, was found to be fully impaired. It was this same reporting unit that incurred an impairment loss of \$2,141,000, or 89% of the original goodwill value, as of December 31, 2012. The remaining \$272,000 of goodwill associated with LSI Controls was found to be fully impaired, primarily as a result of a decline in the discounted cash flows related to this reporting unit.

As of March 1, 2014, the Company performed its annual goodwill impairment test on the three reporting units that contain goodwill. The goodwill impairment test of one of the reporting units in the Electronic Components Segment that contains goodwill passed with an estimated business enterprise value that was \$18.2 million or 71% above the carrying value of this reporting unit. The goodwill impairment test of a reporting unit in the All Other Category passed with an estimated business enterprise value that was \$2.5 million or 453% above the carrying value of the reporting unit. The goodwill impairment test of a reporting unit in the Lighting Segment passed with a business enterprise value that was \$2.5 million or 3% above its carrying value.

The following table presents information about the Company's goodwill on the dates or for the periods indicated.

Goodwill

(In thousands)

	Lighting Segment	Graphics Segment	Electronic Components Segment	All Other Category	Total
Balance as of June 30, 2013					
Goodwill	\$ 34,913	\$ 24,959	\$ 11,621	\$ 6,850	\$ 78,343
Accumulated impairment losses	(34,778)	(24,959)	(2,413)	(5,685)	(67,835)
Goodwill, net as of June 30, 2013	<u>\$ 135</u>	<u>\$ --</u>	<u>\$ 9,208</u>	<u>\$ 1,165</u>	<u>\$ 10,508</u>
Balance as of June 30, 2014					
Goodwill	\$ 34,913	\$ 24,959	\$ 11,621	\$ 6,850	\$ 78,343
Accumulated impairment losses	(34,778)	(24,959)	(2,413)	(5,685)	(67,835)
Goodwill, net as of June 30, 2014	<u>\$ 135</u>	<u>\$ --</u>	<u>\$ 9,208</u>	<u>\$ 1,165</u>	<u>\$ 10,508</u>

The Company performed its annual review of indefinite-lived intangible assets as of March 1, 2013 and 2014 and determined there was no impairment. As of June 30, 2014, the Company performed an impairment test on two definite-lived intangible assets at the LSI Controls reporting unit (formerly LSI Virticus) in the Electronic Components Segment. The triggering event for this impairment analysis was the shortfall in lighting control sales relative to forecast. The income (discounted cash flow) approach was used to determine the fair market value of the intangible assets. As a result of the analysis, it was determined that two definite-lived intangible assets were fully impaired, totaling \$805,000 of impairment expense.

In the first quarter of fiscal 2014, the Company purchased intellectual property related to certain lighting control systems. The cost of this intellectual property was \$268,000 and it is being amortized over a nine year period.

The gross carrying amount and accumulated amortization by major other intangible asset class is as follows:

Other Intangible Assets	June 30, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Amount
<i>(In thousands)</i>			
Amortized Intangible Assets			
Customer relationships	\$ 10,352	\$ 7,412	\$ 2,940
Patents	338	84	254
LED technology firmware, software	11,228	10,832	396
Trade name	460	454	6
Non-compete agreements	710	501	209
Total Amortized Intangible Assets	23,088	19,283	3,805
Indefinite-lived Intangible Assets			
Trademarks and trade names	3,422	--	3,422
Total Indefinite-lived Intangible Assets	3,422	--	3,422
Total Other Intangible Assets	\$ 26,510	\$ 19,283	\$ 7,227

Other Intangible Assets	June 30, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Amount
<i>(In thousands)</i>			
Amortized Intangible Assets			
Customer relationships	\$ 10,352	\$ 7,068	\$ 3,284
Patents	70	55	15
LED technology firmware, software	12,361	10,958	1,403
Trade name	460	362	98
Non-compete agreements	948	591	357
Total Amortized Intangible Assets	24,191	19,034	5,157
Indefinite-lived Intangible Assets			
Trademarks and trade names	3,422	--	3,422
Total Indefinite-lived Intangible Assets	3,422	--	3,422
Total Other Intangible Assets	\$ 27,613	\$ 19,034	\$ 8,579

<i>(In thousands)</i>	Amortization Expense of Other Intangible Assets		
	2014	2013	2012
Amortization Expense	\$ 815	\$ 2,495	\$ 2,631

The Company expects to record amortization expense as follows:

(In thousands)

2015	\$	564
2016	\$	557
2017	\$	460
2018	\$	452
2019	\$	452
After 2019	\$	1,320

NOTE 7 — REVOLVING LINES OF CREDIT AND LONG-TERM DEBT

In April 2014, the Company renewed its unsecured revolving credit line placing both the \$30 million unsecured revolving line of credit for its U.S. operations and the \$5 million unsecured revolving line of credit for its Canadian operations under one bank. The lines of credit expire in the third quarter of fiscal 2017. Interest on the revolving line of credit is charged based upon an increment over the LIBOR rate as periodically determined, or at the bank's base lending rate, at the Company's option. The increment over the LIBOR borrowing rate, as periodically determined, fluctuates between 150 and 190 basis points depending upon the ratio of indebtedness to earnings before interest, taxes, depreciation and amortization ("EBITDA"), as defined in the credit facility. The fee on the unused balance of both the \$30 million and \$5 million committed lines of credit is 15 basis points. Under the terms of this credit facility, the Company has agreed to a negative pledge of assets and is required to comply with financial covenants that limit the amount of debt obligations, require a minimum amount of tangible net worth, and limit the ratio of indebtedness to EBITDA. There are no borrowings against either line of credit as of June 30, 2014.

The Company is in compliance with all of its loan covenants as of June 30, 2014.

NOTE 8 — CASH DIVIDENDS

The Company paid cash dividends of \$5,780,000, \$8,648,000 and \$5,529,000 in fiscal years 2014, 2013 and 2012, respectively. In August 2014, the Board of Directors declared a regular quarterly cash dividend of \$0.06 per share payable September 9, 2014 to shareholders of record September 2, 2014.

NOTE 9 - EQUITY COMPENSATION

Stock Options

The Company has an equity compensation plan that was approved by shareholders in November 2012 and that covers all of its full-time employees, outside directors and certain advisors. This 2012 Stock Incentive Plan replaces all previous equity compensation plans. The options granted or stock awards made pursuant to this plan are granted at fair market value at date of grant or award. Options granted to non-employee directors become exercisable 25% each ninety days (cumulative) from date of grant and options granted to employees generally become exercisable 25% per year (cumulative) beginning one year after the date of grant. The maximum contractual term of the Company's stock options is ten years. If a stock option holder's employment with the Company terminates by reason of death, disability or retirement, as defined in the Plan, the Plan generally provides for acceleration of vesting. The number of shares reserved for issuance is 686,831 shares, all of which were available for future grant or award as of June 30, 2014. This plan allows for the grant of incentive stock options, non-qualified stock options, stock appreciation rights, restricted and unrestricted stock awards, performance stock awards, and other stock awards. As of June 30, 2014, a total of 2,677,464 options for common shares were outstanding from this plan as well as one previous stock option plan (which had also been approved by shareholders), and of these, a total of 1,874,326 options for common shares were vested and exercisable. As of June 30, 2014, the approximate unvested stock option expense that will be recorded as expense in future periods is \$614,781. The weighted average time over which this expense will be recorded is approximately 30 months.

The fair value of each option on the date of grant was estimated using the Black-Scholes option pricing model. The below listed weighted average assumptions were used for grants in the periods indicated.

	2014	2013	2012
Dividend yield	3.3%	3.6%	3.1%
Expected volatility	53%	51%	55%
Risk-free interest rate	1.7%	0.6%	1.0%
Expected life (in years)	5.5	4.7	4.7

At June 30, 2014, the 436,000 options granted to employees during fiscal 2014 had exercise prices ranging from of \$7.20 to \$8.44 per share, fair values ranging from \$2.64 to \$3.64 per share, and remaining contractual lives of between nine years two months and nine years six months.

At June 30, 2013, the 414,750 options granted during fiscal 2013 to both employees and non-employee directors had exercise prices ranging from \$6.28 to \$6.58 per share, fair values ranging from \$2.00 to \$2.11 per share, and remaining contractual lives of between nine years two months and nine years five months.

At June 30, 2012, the 36,000 options granted during fiscal 2012 to both employees and non-employee directors had exercise prices ranging from \$6.68 to \$7.22 per share, fair values ranging from \$2.45 to \$2.60 per share, and remaining contractual lives of between nine years five months and nine years eight months.

The Company calculates stock option expense using the Black-Scholes model. Stock option expense is recorded on a straight line basis, or sooner if the grantee is retirement eligible as defined in the 2012 Stock Incentive Plan, with an estimated 2.0% forfeiture rate effective April 1, 2014. Previous estimated forfeiture rates were 2.1% effective January 1, 2014, 2.2% effective July 1, 2013, 2.3% effective January 1, 2013, 3.4% effective October 1, 2012, 4.1% effective April 1, 2012, 3.6% effective April 1, 2011, 3.0% effective July 1, 2010 and 6.55% prior to July 1, 2010. The expected volatility of the Company's stock was calculated based upon the historic monthly fluctuation in stock price for a period approximating the expected life of option grants. The risk-free interest rate is the rate of a five year Treasury security at constant, fixed maturity on the approximate date of the stock option grant. The expected life of outstanding options is determined to be less than the contractual term for a period equal to the aggregate group of option holders' estimated weighted average time within which options will be exercised. It is the Company's policy that when stock options are exercised, new common shares shall be issued. The Company recorded \$1,004,676, \$842,401 and \$410,550 of expense related to stock options in fiscal years 2014, 2013 and 2012, respectively. As of June 30, 2014, the Company had 2,667,192 stock options that were vested and that were expected to vest, with a weighted average exercise price of \$9.58 per share, an aggregate intrinsic value of \$1,664,121 and weighted average remaining contractual terms of 5.4 years.

Information related to all stock options for the years ended June 30, 2014, 2013 and 2012 is shown in the following tables:

Twelve Months Ended June 30, 2014				
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at 6/30/13	2,341,150	\$ 9.95	<u>5.6</u>	<u>\$ 1,544,896</u>
Granted	436,000	\$ 7.24		
Forfeitures	(39,050)	\$ 11.59		
Exercised	<u>(60,636)</u>	\$ 6.22		
Outstanding at 6/30/14	<u>2,677,464</u>	\$ 9.57	<u>5.4</u>	<u>\$ 1,674,010</u>
Exercisable at 6/30/14	<u>1,874,326</u>	\$ 10.74	<u>4.0</u>	<u>\$ 750,925</u>

Twelve Months Ended June 30, 2013				
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at 6/30/12	2,006,250	\$ 10.64	<u>5.8</u>	<u>\$ 654,747</u>
Granted	414,750	\$ 6.58		
Forfeitures	(44,350)	\$ 13.61		
Exercised	<u>(35,500)</u>	\$ 4.93		
Outstanding at 6/30/13	<u>2,341,150</u>	\$ 9.95	<u>5.6</u>	<u>\$ 1,544,896</u>
Exercisable at 6/30/13	<u>1,643,050</u>	\$ 11.34	<u>4.6</u>	<u>\$ 524,522</u>

Twelve Months Ended June 30, 2012				
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at 6/30/11	2,123,939	\$ 10.80	<u>6.3</u>	<u>\$ 955,401</u>
Granted	36,000	\$ 7.13		
Forfeitures	(150,939)	\$ 12.12		
Exercised	<u>(2,750)</u>	\$ 5.18		
Outstanding at 6/30/12	<u>2,006,250</u>	\$ 10.64	<u>5.8</u>	<u>\$ 654,747</u>
Exercisable at 6/30/12	<u>1,404,400</u>	\$ 12.11	<u>5.1</u>	<u>\$ 234,971</u>

The following table presents information related to unvested stock options:

	Shares	Weighted-Average Grant Date Fair Value
Non-vested at June 30, 2013	698,100	\$ 2.20
Granted	436,000	\$ 2.67
Vested	(329,587)	\$ 2.36
Forfeited	(1,375)	\$ 2.03
Non-vested at June 30, 2014	803,138	\$ 2.39

The weighted average grant date fair value of options granted was \$2.67, \$2.11 and \$2.58 per share in fiscal years 2014, 2013 and 2012, respectively. The aggregate intrinsic value of options exercised during the years ended June 30, 2014, 2013 and 2012 were \$142,714, \$95,223 and \$3,365, respectively. The aggregate grant date fair value of options that vested during 2014, 2013 and 2012 was \$777,825, \$756,543 and \$1,122,010, respectively. The Company received \$377,401, \$175,023 and \$14,235 of cash from employees who exercised options in fiscal years 2014, 2013 and 2012, respectively. Additionally, in fiscal 2014 the Company recorded \$48,747 as a reduction of federal income taxes payable, \$13,009 as an increase in common stock, \$27,693 as a reduction of income tax expense, and \$8,045 as a reduction of the deferred tax asset related to the exercises of stock options in which the employees sold the common shares prior to the passage of twelve months from the date of exercise.

Stock Compensation Awards

The Company awarded a total of 23,205 common shares in fiscal 2014, a total of 8,092 common shares in fiscal 2013, and a total of 7,076 common shares in fiscal 2012 as stock compensation awards. These common shares were valued at their approximate \$192,100, \$56,700 and \$47,700 fair market values based on their stock price at dates of issuance multiplied by the number of common shares awarded, respectively, pursuant to the compensation programs for non-employee directors who receive a portion of their compensation as an award of Company stock and for employees who receive a nominal stock award following their twentieth employment anniversary. Stock compensation awards are made in the form of newly issued common shares of the Company.

Deferred Compensation Plan

The Company has a non-qualified deferred compensation plan providing for both Company contributions and participant deferrals of compensation. This plan is fully funded in a Rabbi Trust. All plan investments are in common shares of the Company. As of June 30, 2014 there were 31 participants, all with fully vested account balances. A total of 307,328 common shares with a cost of \$2,914,700, and 288,505 common shares with a cost of \$2,791,000 were held in the plan as of June 30, 2014 and 2013, respectively, and, accordingly, have been recorded as treasury shares. The change in the number of shares held by this plan is the net result of share purchases and sales on the open stock market for compensation deferred into the plan and for distributions to terminated employees. The Company does not issue new common shares for purposes of the non-qualified deferred compensation plan. The Company accounts for assets held in the non-qualified deferred compensation plan in accordance with Accounting Standards Codification Topic 710, Compensation — General. The Company used approximately \$183,100 and \$175,100 to purchase 24,215 and 25,549 common shares of the Company in the open stock market during fiscal years 2014 and 2013, respectively, for either employee salary deferrals or Company contributions into the non-qualified deferred compensation plan. For fiscal year 2015, the Company estimates the Rabbi Trust for the Nonqualified Deferred Compensation Plan will make net repurchases in the range of 19,000 to 23,000 common shares of the Company. The Company does not currently repurchase its own common shares for any other purpose.

NOTE 10 — LEASES AND PURCHASE COMMITMENTS

Purchase commitments, including minimum annual rental commitments, of the Company totaled \$35,873,000 and \$33,273,000 as of June 30, 2014 and June 30, 2013, respectively. The Company leases certain of its facilities and equipment under operating lease arrangements. The facility leases contain the option to renew for periods ranging from one to five years. Rental expense was \$1,783,000 in 2014, \$1,794,000 in 2013, and \$1,836,000 in 2012. Minimum annual rental commitments under non-cancelable operating leases are indicated in the table below:

2015	2016	2017	2018	2019	2020 & Beyond
\$ 1,406,000	\$ 1,228,000	\$ 1,065,000	\$ 942,000	\$ 143,000	--

NOTE 11 — INCOME TAXES

The following information is provided for the years ended June 30:

<i>(In thousands)</i>	2014	2013	2012
Components of income before income taxes:			
United States	\$ 3,121	\$ 2,369	\$ 8,131
Foreign	(854)	(1,754)	(1,940)
Income before income taxes	<u>\$ 2,267</u>	<u>\$ 615</u>	<u>\$ 6,191</u>
Provision (benefit) for income taxes:			
Current			
U.S. federal	\$ 500	\$ 972	\$ 2,543
State and local	35	(440)	313
Foreign	(54)	(57)	(198)
Total current	481	475	2,658
Deferred	856	263	309
Total provision for income taxes	<u>\$ 1,337</u>	<u>\$ 738</u>	<u>\$ 2,967</u>

<i>(In thousands)</i>	2014	2013	2012
Reconciliation to federal statutory rate:			
Federal statutory tax rate	34.0%	34.0%	34.0%
State and local taxes, net of federal benefit	6.9	17.0	6.6
Impact of foreign operations	1.2	(7.1)	(4.1)
Federal and state tax credits	(6.3)	(34.1)	(1.3)
Goodwill	0.1	133.6	1.3
Valuation allowance	30.8	145.6	13.1
Domestic production activities deduction	(2.8)	(22.2)	(4.0)
Uncertain tax position activity	(11.3)	(101.6)	(0.9)
Contingent liability	—	(49.6)	—
Other	6.4	4.5	3.2
Effective tax rate	<u>59.0%</u>	<u>120.1%</u>	<u>47.9%</u>

The components of deferred income tax assets and (liabilities) at June 30, 2014 and 2013 are as follows:

<i>(In thousands)</i>	2014	2013
Reserves against current assets	\$ 74	\$ 370
Accrued expenses	2,366	1,686
Goodwill, acquisition costs and intangible assets	1,171	1,646
Deferred compensation	1,051	999
State net operating loss carryover and credits	1,991	1,991
Foreign net operating loss carryover and credits	4,465	4,256
U.S. Federal net operating loss carryover and credits	556	606
Deferred income tax asset before valuation reserve	11,674	11,554
Valuation reserve	(6,450)	(5,750)
Deferred income tax asset	<u>5,224</u>	<u>5,804</u>
Depreciation	(3,985)	(3,709)
Deferred income tax liability	<u>(3,985)</u>	<u>(3,709)</u>
Net deferred income tax asset	<u>\$ 1,239</u>	<u>\$ 2,095</u>

Reconciliation to the balance sheets as of June 30, 2014 and 2013:

<i>(In thousands)</i>	2014	2013
Deferred income tax asset included in:		
Other current assets	\$ 2,439	\$ 2,056
Other long-term assets (liability)	(1,200)	39
Net deferred income tax asset	\$ 1,239	\$ 2,095

As of June 30, 2014 and 2013, the Company has recorded a deferred tax asset in the amount of \$556,000 and \$606,000, respectively, related to U.S. Federal net operating loss and research and development credit carryovers acquired in the acquisition of Virticus Corporation. The net operating losses will expire over a period of 3 years, beginning in June 30, 2029. The research and development credits will expire over a period of 2 years, beginning in June 30, 2029. The annual utilization is limited by Internal Revenue Code Section 382. However, the Company has determined these assets, more likely than not, will be realized.

As of June 30, 2014 and 2013, the Company has recorded a deferred state income tax asset in the amount of \$1,727,000 and \$1,727,000, respectively, net of federal tax benefits, related to non-refundable New York state tax credits. The Company has determined that this deferred state income tax asset requires a partial valuation reserve. These credits do not expire, but pursuant to New York state legislation enacted in the Company's quarter ending March 31, 2014, and effective for the Company's tax year ending June 30, 2015, the Company has determined that this asset, more likely than not, will not be realized. The legislation enacted in the quarter ending March 31, 2014, caused the Company to change the determination as of June 30, 2013 that only a partial valuation reserve was required. As of June 30, 2014 and 2013, the Company has recorded a valuation reserve in the amount of \$1,721,000 and \$1,231,000, respectively. This activity netted to an additional state income tax expense of \$489,000 (of which \$362,000 related to the state tax code change), \$312,000, and \$95,000 in fiscal years 2014, 2013, and 2012 respectively.

As of June 30, 2014 and 2013, the Company has recorded a deferred state income tax asset in the amount of \$90,000 related to a state net operating loss carryover in Tennessee, and has determined that a full valuation reserve is required. The net loss carryover was created from a company that was previously sold. Because of the sale of this Tennessee-based company, the Company has determined this asset more likely than not, will not be realized. This activity netted to an additional state income tax expense of \$0 in fiscal 2014, 2013 and 2012. The Tennessee net operating loss carryover will expire over a period of 7 years, beginning in June 30, 2019.

As of June 30, 2014 and 2013, the Company has recorded a deferred state income tax asset in the amount of \$173,000 related to a state net operating loss carryover and a state research and development credit in Oregon acquired during the acquisition of Virticus Corporation. The Company has determined this asset more likely than not, will not be realized and that a full valuation reserve is required. The Oregon net operating loss will expire over a period of 4 years, beginning in June 30, 2027. The Oregon research and development credit will expire over a period of 2 years, beginning in June 30, 2015.

As of June 30, 2014 and 2013, the Company has recorded deferred tax assets for its Canadian subsidiary related to net operating loss carryover and to research and development tax credits totaling \$4,466,000 and \$4,256,000, respectively. In view of the financial statements of this subsidiary and a current series of loss years, the Company has determined these assets, more likely than not, will not be realized. The Canada net operating loss carryover will expire over a period of 9 years, beginning in June 30, 2026. The Canada research and development credit will expire over a period of 8 years, beginning in June 30, 2027.

Considering all issues discussed above, the Company has recorded valuation reserves of \$6,450,000 and \$5,750,000 as of June 30, 2014 and 2013, respectively.

The Company accounts for uncertain tax positions in accordance with Accounting Standards Codification 740-10. At June 30, 2014, tax and interest, net of potential federal tax benefits, were \$485,000 and \$333,000 respectively, of the total reserve for uncertain tax positions of \$987,000. Additionally, penalties were \$169,000 of the reserve at June 30, 2014. Of the \$987,000 reserve for uncertain tax positions, \$819,000 would have an unfavorable impact on the effective tax rate if recognized. At June 30, 2013, tax and interest, net of potential federal tax benefits, were \$630,000 and \$395,000, respectively, of the total reserve for uncertain tax positions of \$1,244,000. Additionally, penalties were \$219,000 of the reserve at June 30, 2013. Of the \$1,244,000 reserve for uncertain tax positions, \$1,025,000 would have an unfavorable impact on the effective tax rate if recognized. The liability for uncertain tax positions is included in Other Long-Term Liabilities.

The Company recognized a \$147,000 tax benefit in fiscal 2014, a \$540,000 tax benefit in fiscal 2013, and a \$9,000 tax benefit in fiscal 2012 related to the change in reserves for uncertain tax positions. The Company is recording estimated interest and penalties related to potential underpayment of income taxes as a component of tax expense in the Consolidated Statements of Operations. The reserve for uncertain tax positions is not expected to change significantly in the next twelve months.

The fiscal 2014, 2013 and 2012 gross tax activity in the liability for uncertain tax positions was as follows:

<i>(in thousands)</i>	2014	2013	2012
Balance at beginning of the fiscal year	\$ 969	\$ 1,860	\$ 1,910
Decreases — tax positions in prior period	(225)	(234)	(284)
Increases — tax positions in current period	2	37	234
Settlements and payments	—	(694)	—
Lapse of statute of limitations	—	—	—
Balance at end of the fiscal year	<u>\$ 746</u>	<u>\$ 969</u>	<u>\$ 1,860</u>

The Company files a consolidated federal income tax return in the United States, and files various combined and separate tax returns in several foreign, state, and local jurisdictions. With limited exceptions, the Company is no longer subject to U.S. Federal, state and local tax examinations by tax authorities for fiscal years ending prior to June 30, 2010.

The Company is no longer subject to Canada Federal and provincial tax examinations by tax authorities for fiscal years ending prior to June 30, 2010.

NOTE 12 — SUPPLEMENTAL CASH FLOW INFORMATION

<i>(In thousands)</i>	2014	2013	2012
Cash payments:			
Interest	\$ 76	\$ 76	\$ 132
Income taxes	\$ 978	\$ 3,404	\$ 1,016
Issuance of common shares as compensation	\$ 193	\$ 57	\$ 48

NOTE 13 — COMMITMENTS AND CONTINGENCIES

As part of the acquisition of Virticus Corporation on March 19, 2012, a contingent Earn-Out liability of \$877,000 was recorded based on the fair value of estimated Earn-Out payments. This discounted liability is to be paid over a five year period, contingent upon reaching certain sales in each year over the five year period (fiscal year 2013 through fiscal year 2017). In December 2012, as a result of modified sales forecasts for LSI Virticus, the fair value of the Earn-Out liability was adjusted to \$218,000. In June 2013, another revised forecast was provided which in turn reduced the remaining Earn-Out liability to zero. In addition to the \$877,000 reversal of the Earn-Out liability, which was recorded in selling and administrative expenses in Corporate and Eliminations, \$20,000 of accrued interest expense was also reversed. As of June 30, 2014, the maximum potential undiscounted liability related to the Earn-Out is \$3 million, which is based upon the achievement of a defined level of sales of lighting control systems in fiscal years 2015 through 2017. The likelihood of this occurring is not considered probable.

The Company is party to various negotiations, customer bankruptcies, and legal proceedings arising in the normal course of business. The Company provides reserves for these matters when a loss is probable and reasonably estimable. The Company does not disclose a range of potential loss because the likelihood of such a loss is remote. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations, cash flows or liquidity.

The Company may occasionally issue a standby letter of credit in favor of third parties. As of June 30, 2014, there were no such standby letters of credit.

NOTE 14 — RELATED PARTY TRANSACTIONS

The Company has recorded expense for the following related party transactions in the fiscal years indicated (amounts in thousands):

	<u>2014</u>		<u>2013</u>		<u>2012</u>
Keating Muething & Klekamp PLL	\$ 98	\$	84	\$	172
American Engineering and Metal Working	\$ 215	\$	394	\$	272
3970957 Canada Inc.	\$ 161	\$	182	\$	190
Synergy Electronic LTD	\$ 171	\$	232	\$	195

As of the balance sheet date indicated, the Company had the following liabilities recorded with respect to related party transactions (amounts in thousands):

	<u>June 30, 2014</u>		<u>June 30, 2013</u>
Keating Muething & Klekamp PLL	\$ 5	\$	19
American Engineering and Metal Working	\$ —	\$	5
Synergy Electronic LTD	\$ 8	\$	5

The law firm of Keating Muething & Klekamp PLL, of which one of the Company's independent outside directors is a senior partner, is the Company's primary outside law firm providing legal services in most all areas required other than patents and intellectual property. The manufacturing firm of American Engineering and Metal Working, which is owned and operated by the son of the president of the Company's Graphics Segment, provides metal fabricated components. 3970957 Canada Inc., which is owned by the former president and another executive of the Company's LSI Saco Technologies subsidiary, owns the building that the Canadian operation occupies and rents. Synergy Electronic LTD, which is owned and operated by the brother of an executive at LSI Saco Technologies, manufactures molds and materials used in video screens and research and development projects.

NOTE 15 — SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

<i>(In thousands except per share data)</i>	Quarter Ended				Fiscal Year
	Sept. 30	Dec. 31	March 31	June 30	
2014					
Net sales	\$ 80,486	\$ 76,123	\$ 68,996	\$ 73,858	\$ 299,463
Gross profit	19,122	16,757	13,715	15,704	65,298
Net income (loss)	1,865	870	(1,009)	(796)	930
Earnings (loss) per share					
Basic	\$ 0.08	\$ 0.04	\$ (0.04)	\$ (0.03)	\$ 0.04(a)
Diluted	\$ 0.08	\$ 0.04	\$ (0.04)	\$ (0.03)	\$ 0.04(a)
Range of share prices					
High	\$ 9.00	\$ 9.60	\$ 9.67	\$ 8.78	\$ 9.67
Low	\$ 6.65	\$ 7.76	\$ 7.54	\$ 7.10	\$ 6.65
2013					
Net sales	\$ 74,719	\$ 71,082	\$ 66,152	\$ 68,837	\$ 280,790
Gross profit	17,871	13,882	13,921	14,736	60,410
Net income (loss)	1,830	(2,450)	(315)	812	(123)
Earnings (loss) per share					
Basic	\$ 0.08	\$ (0.10)	\$ (0.01)	\$ 0.03	\$ (0.01)(a)
Diluted	\$ 0.08	\$ (0.10)	\$ (0.01)	\$ 0.03	\$ (0.01)(a)
Range of share prices					
High	\$ 7.42	\$ 7.38	\$ 7.77	\$ 8.46	\$ 8.46
Low	\$ 6.19	\$ 6.10	\$ 6.80	\$ 6.78	\$ 6.10
2012					
Net sales	\$ 65,495	\$ 68,774	\$ 62,937	\$ 71,196	\$ 268,402
Gross profit	15,464	14,926	13,316	16,607	60,313
Net income	1,324	772	(377)	1,505	3,224
Earnings per share					
Basic	\$ 0.05	\$ 0.03	\$ (0.02)	\$ 0.06	\$ 0.13(a)
Diluted	\$ 0.05	\$ 0.03	\$ (0.02)	\$ 0.06	\$ 0.13(a)
Range of share prices					
High	\$ 8.91	\$ 7.04	\$ 7.70	\$ 7.64	\$ 8.91
Low	\$ 5.93	\$ 5.45	\$ 5.85	\$ 5.81	\$ 5.45

(a) The total of the earnings per share for each of the four quarters does not equal the total earnings per share for the full year because the calculations are based on the average shares outstanding during each of the individual periods.

At August 26, 2014, there were 522 shareholders of record. The Company believes this represents approximately 3,000 beneficial shareholders.

LSI INDUSTRIES INC.
SELECTED FINANCIAL DATA
(In thousands except per share data)

The following data has been selected from the Consolidated Financial Statements of the Company for the periods and dates indicated:

Statement of Operations Data:

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net sales	\$ 299,463	\$ 280,790	\$ 268,402	\$ 293,501	\$ 254,402
Cost of products and services sold	234,165	220,380	208,089	221,156	198,030
Loss on sale of a subsidiary	—	—	—	—	639
Selling and administrative expenses	62,175	57,367	53,724	56,041	53,671
Goodwill and intangible asset impairment (a)	805	2,413	258	—	153
Operating income (loss)	2,318	630	6,331	16,304	1,909
Interest (income)	(17)	(47)	(25)	(43)	(28)
Interest expense	68	62	165	180	153
Income (loss) before income taxes	2,267	615	6,191	16,167	1,784
Income taxes	1,337	738	2,967	5,339	360
Net income (loss)	<u>\$ 930</u>	<u>\$ (123)</u>	<u>\$ 3,224</u>	<u>\$ 10,828</u>	<u>\$ 1,424</u>
Earnings (loss) per common share					
Basic	\$ 0.04	\$ (0.01)	\$ 0.13	\$ 0.45	\$ 0.06
Diluted	\$ 0.04	\$ (0.01)	\$ 0.13	\$ 0.44	\$ 0.06
Cash dividends paid per share	\$ 0.24	\$ 0.36	\$ 0.23	\$ 0.20	\$ 0.20
Weighted average common shares					
Basic	24,388	24,313	24,298	24,287	24,128
Diluted	24,546	24,313	24,352	24,339	24,134

Balance Sheet Data:

(At June 30)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Working capital	\$ 76,788	\$ 76,703	\$ 83,702	\$ 84,524	\$ 73,568
Total assets	169,888	169,179	175,226	176,021	173,845
Long-term debt, including current maturities	—	—	—	1,099	1,132
Shareholders' equity	138,412	141,690	149,368	151,218	144,218

- (a) The Company recorded a significant impairment of goodwill and/or intangible assets in fiscal 2014 and 2013, and minor impairments in fiscal 2012 and 2010. See Note 6.

LSI INDUSTRIES INC. AND SUBSIDIARIES
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED JUNE 30, 2013, 2012, AND 2011
(In Thousands)

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
Description	Balance Beginning of Period	Additions Charged to Costs and Expenses	Additions from Acquired Company	(a) Deductions	Balance End of Period
Allowance for Doubtful Accounts:					
Year Ended June 30, 2014	\$ 346	\$ 6	\$ —	\$ (58)	\$ 294
Year Ended June 30, 2013	\$ 385	\$ 269	\$ —	\$ (308)	\$ 346
Year Ended June 30, 2012	\$ 826	\$ 360	\$ 4	\$ (805)	\$ 385
Inventory Obsolescence Reserve:					
Year Ended June 30, 2014	\$ 3,087	\$ 1,464	\$ —	\$ (2,253)	\$ 2,298
Year Ended June 30, 2013	\$ 2,156	\$ 2,957	\$ —	\$ (2,026)	\$ 3,087
Year Ended June 30, 2012	\$ 1,813	\$ 1,453	\$ —	\$ (1,110)	\$ 2,156
Deferred Tax Asset Valuation Reserve:					
Year Ended June 30, 2014	\$ 5,750	\$ 700	\$ —	\$ —	\$ 6,450
Year Ended June 30, 2013	\$ 5,009	\$ 741	\$ —	\$ —	\$ 5,750
Year Ended June 30, 2012	\$ 4,200	\$ 636	\$ 173	\$ —	\$ 5,009

(a) For Allowance for Doubtful Accounts, deductions are uncollectible accounts charged off, less recoveries.



Amended and Restated Loan Agreement

THIS AMENDED AND RESTATED LOAN AGREEMENT (the "**Agreement**") is entered into as of June 19, 2014 between **LSI INDUSTRIES INC.** (the "**Borrower**"), with an address at 10000 Alliance Road, Cincinnati, Ohio 45242, Attn: Chief Financial Officer, and **PNC BANK, NATIONAL ASSOCIATION** (the "**Bank**"), with an address at 201 East Fifth Street, Cincinnati, Ohio 45202, Attn: Corporate Banking.

This Agreement amends and completely restates the Credit Agreement dated as of March 30, 2001 (as amended, the "**Prior Credit Agreement**") by and among the Borrower, the Bank, the other lenders from time to time party thereto, and PNC Bank, National Association, as Administrative Agent and Syndication Agent.

The Borrower and the Bank, with the intent to be legally bound, agree as follows:

1. Credit Facilities; Facility Fee; Margin.

1.1. Loans. The Bank has made or may make one or more loans (collectively, the "**Loans**") to the Borrower subject to the terms and conditions and in reliance upon the representations and warranties of the Borrower set forth in this Agreement. The Loans shall be used by the Borrower for general corporate purposes including acquisitions permitted hereunder. As of the date hereof, the Loans include a revolving credit loan (the "**Revolving Loan**") in the principal amount of up to \$30,000,000. The Loans are or will be evidenced by a promissory note or notes of the Borrower and all renewals, extensions, amendments and restatements thereof (if one or more, collectively, the "**Note**") acceptable to the Bank, which may set forth the interest rate, repayment and other provisions, the terms of which are incorporated into this Agreement by reference.

1.2. Letters of Credit. The Borrower may request that the Bank, in lieu of cash advances, issue trade or standby letters of credit (individually, a "**Letter of Credit**" and collectively the "**Letters of Credit**") under the Revolving Loan in face amount in the aggregate at any time outstanding not to exceed \$5,000,000. The availability of advances under the Revolving Loan shall be reduced by the face amount of each Letter of Credit issued and outstanding. For purposes of this Agreement, the "**face amount**" of any Letter of Credit shall include any automatic increases in face amount under the terms of such Letter of Credit, whether or not any such increase in face amount has become effective. Unless otherwise consented to by the Bank in writing, each Letter of Credit shall have an expiry date which is not later than the Expiration Date (as defined in the Note evidencing the Revolving Loan) of the Revolving Loan (the "**Final LC Expiration Date**"). Each payment by the Bank under a Letter of Credit shall constitute an advance of principal under the Revolving Loan and shall be evidenced by the Note evidencing the Revolving Loan. The Letters of Credit shall be governed by the terms of this Agreement and by one or more reimbursement agreements, in form and content satisfactory to the Bank, executed by the Borrower in favor of the Bank (collectively, the "**Reimbursement Agreement**"). Each request for the issuance of a Letter of Credit must be accompanied by the Borrower's execution of an application on the Bank's standard forms (each, an "**Application**"), together with all supporting documentation. Each Letter of Credit will be issued in the Bank's sole discretion and in a form acceptable to the Bank. This Agreement is not a pre-advice for the issuance of a letter of credit and is not irrevocable. The Borrower shall pay the Bank's standard issuance fee on the face amount of each Letter of Credit upon issuance, together with such other customary fees and expenses therefore as shall be required by the Bank. In addition, the Borrower shall pay to the Bank a fee (the "**Letter of Credit Commission**"), calculated daily (on the basis of a year of 365 days), on the amount available to be drawn at such time under all Letters of Credit issued and outstanding under the Revolving Loan (including any amounts drawn thereunder and not reimbursed, regardless of the existence or satisfaction of any conditions or limitations on drawing) each day at a rate equal to the LIBOR Applicable Margin per annum. The Letter of Credit Commission shall be payable quarterly in arrears on the first day of each fiscal quarter during which any Letter of Credit is outstanding and on the Final LC Expiration Date. Notwithstanding the foregoing, after the occurrence and during the continuance of an Event of Default, the Letter of Credit Commission, as calculated above, shall be increased by three percent (3.00%) per annum.

1.3. Facility Fee. If, for any calendar quarter, the sum of the average daily outstanding balance of the Revolving Loan and the face amount of outstanding Letters of Credit does not equal the maximum facility amount of the Revolving Loan, then Borrower shall pay to the Bank a fee at a rate equal to 0.15% per annum on the amount by which the maximum facility amount of the Revolving Loan exceeds such sum. Such fee shall be payable to the Bank in arrears on the first day of each calendar quarter with respect to the previous calendar quarter.

1.4. Applicable Margin.

(a) The Borrower shall pay interest on the Loans in accordance with the Note. As used in the Note, the “**LIBOR Applicable Margin**” with respect to the Loans shall be defined and determined as follows:

Leverage Ratio	LIBOR Applicable Margin
< 1.00 to 1.00	1.50%
≥ 1.00 to 1.00 and ≤ 1.50 to 1.00	1.65%
> 1.50 to 1.00	1.90%

(b) The Leverage Ratio shall be calculated in the manner set forth in Section 4.11. All adjustments to the LIBOR Applicable Margin based on the Leverage Ratio shall be effective prospectively on the first day of the fiscal quarter following the submission of the quarterly financial statements to the Bank for the prior fiscal quarter in accordance herewith. No downward adjustments shall occur if, at the time such downward adjustment would otherwise be made, there shall exist any Event of Default, provided that such downward adjustment shall be made on the first day of the quarter after the date on which the applicable Event of Default shall have been waived by the Bank in writing.

(c) If the quarterly financial statements are not timely delivered to the Bank for the end of the applicable fiscal quarter in accordance with Section 4.2, the LIBOR Applicable Margin shall be conclusively presumed to equal the highest LIBOR Applicable Margin specified in the pricing table set forth above until the date of delivery of such quarterly financial statements and the related compliance certificate, on which date the rate will be adjusted prospectively based upon the Leverage Ratio reflected in such quarterly financial statements. The application of the foregoing shall not be deemed a waiver of any rights the Bank may have as a result of the failure by the Borrower to deliver such financial statements or any related compliance certificate.

(d) In the event of any discrepancy between the computation of the Leverage Ratio for a particular quarter based upon the quarterly financial statements for such quarter and the related annual financial statements furnished pursuant to Section 4.3, the computation based on such annual financial statements shall govern retroactive to the date as to which such adjustment applies. In the event of a retroactive correction in favor of the Bank, the amount of interest thereby overdue and payable by the Borrower shall be paid to the Bank within five (5) days after the date of such retroactive correction. In the event of a retroactive correction of the Leverage Ratio in favor of the Borrower, the amount of interest overpaid by the Borrower shall be applied as a credit against any fees, charges, interest or principal payments then due hereunder or to become due hereunder in the order determined by the Bank. The Borrower’s calculation of the Leverage Ratio shall not be binding upon the Bank. The Bank may, in its reasonable discretion, elect to separately calculate the Leverage Ratio and the Bank’s calculation shall control in the event of any discrepancy.

2. **Security.** The security for repayment of the Loans shall include but not be limited to the guaranties, collateral and other security documents heretofore, contemporaneously or hereafter executed and delivered to the Bank (the “**Security Documents**”), which shall secure repayment of the Loans, the Note and all other loans, advances, debts, liabilities, obligations, covenants and duties owing by the Borrower to the Bank or to any other direct or indirect subsidiary of The PNC Financial Services Group, Inc., of any kind or nature, present or future (including any interest accruing thereon after maturity, or after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding relating to the Borrower, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), whether direct or indirect (including those acquired by assignment or participation), absolute or contingent, joint or several, due or to become due, now existing or hereafter arising, whether or not (i) evidenced by any note, guaranty or other instrument, (ii) arising under any agreement, instrument or document, (iii) for the payment of money, (iv) arising by reason of an extension of credit, opening of a letter of credit, loan, equipment lease or guarantee, (v) under any interest or currency swap, future, option or other interest rate protection or similar agreement, (vi) under or by reason of any foreign currency transaction, forward, option or other similar transaction providing for the purchase of one currency in exchange for the sale of another currency, or in any other manner, or (vii) arising out of overdrafts on deposit or other accounts or out of electronic funds transfers (whether by wire transfer or through automated clearing houses or otherwise) or out of the return unpaid of, or other failure of the Bank to receive final payment for, any check, item, instrument, payment order or other deposit or credit to a deposit or other account, or out of the Bank’s non-receipt of or inability to collect funds or otherwise not being made whole in connection with depository or other similar arrangements; and any amendments, extensions, renewals and increases of or to any of the foregoing, and all reasonable costs and reasonable expenses of the Bank incurred in the documentation, negotiation, modification, enforcement, collection and otherwise in connection with any of the foregoing, including reasonable attorneys’ fees of outside counsel and expenses (hereinafter referred to collectively as the “**Obligations**”). Unless expressly provided to the contrary in documentation for any other loan or loans, it is the express intent of the Bank and the Borrower that all Obligations including those included in the Loans be cross-collateralized and cross-defaulted, such that collateral securing any of the Obligations shall secure repayment of all Obligations and a default under any Obligation shall be a default under all Obligations.

This Agreement, the Note, the Security Documents and all other agreements and documents executed and/or delivered pursuant hereto, as each may be amended, modified, extended or renewed from time to time, are collectively referred to as the “**Loan Documents.**” Capitalized terms not defined herein shall have the meanings ascribed to them in the Loan Documents.

3. Representations and Warranties. The Borrower hereby makes the following representations and warranties, which shall be continuing in nature and remain in full force and effect until the Obligations are paid in full, and which shall be true and correct except as otherwise set forth on the Addendum attached hereto and incorporated herein by reference (the “**Addendum**”):

3.1. Existence, Power and Authority. The Borrower and each of its Subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization and has the power and authority to own and operate its assets and to conduct its business as now or as it is then carried on, and is duly qualified, licensed and in good standing to do business in all jurisdictions where its ownership of property or the nature of its business requires such qualification or licensing. The Borrower and each of its Subsidiaries is duly authorized to execute and deliver the Loan Documents to which it is a party, all necessary action to authorize the execution and delivery of such Loan Documents has been properly taken, and the Borrower is and will continue to be duly authorized to borrow under this Agreement and to perform all of the other terms and provisions of the Loan Documents as they relate to the Borrower.

3.2. Financial Statements. The Borrower’s most recent quarterly and annual financial statements, as delivered to the Bank, are true, complete and accurate in all material respects and fairly present the financial condition, assets and liabilities, whether accrued, absolute, contingent or otherwise and the results of its operations for the period specified therein. Such financial statements have been prepared in accordance with generally accepted accounting principles (“**GAAP**”) consistently applied from period to period, subject in the case of interim statements to normal year-end adjustments and to any comments and notes included therein.

3.3. No Material Adverse Change. Since the date of the Borrower’s most recent quarterly and annual financial statements delivered to the Bank, neither the Borrower nor any of its Subsidiaries has suffered any damage, destruction or loss, and no event or condition has occurred or exists, which has resulted or would reasonably be expected to result in a material adverse change in the business, assets, operations, condition (financial or otherwise) or results of operations of the Borrower or any of its Subsidiaries.

3.4. Binding Obligations. The Borrower has full power and authority to enter into the transactions provided for in this Agreement and has been duly authorized to do so by appropriate action of its Board of Directors or otherwise as may be required by law, charter, other organizational documents or agreements; and the Loan Documents, when executed and delivered by the Borrower or any of its Subsidiaries, will constitute the legal, valid and binding obligations of the Borrower or such Subsidiary (as applicable) enforceable in accordance with their terms.

3.5. No Defaults or Violations. There does not exist any Event of Default under this Agreement or any default or violation by the Borrower or any of its Subsidiaries of or under any of the terms, conditions or obligations of: (i) its organizational documents; (ii) any indenture, mortgage, deed of trust, franchise, permit, contract, agreement, or other instrument to which it is a party or by which it is bound; or (iii) any law, ordinance, regulation, ruling, order, injunction, decree, condition or other requirement applicable to or imposed upon it by any law, the action of any court or any governmental authority or agency; and the consummation of this Agreement and the transactions set forth herein will not result in any such default or violation or Event of Default.

3.6. Title to Assets. The Borrower has good and marketable title to the assets reflected on the most recent quarterly and annual financial statements delivered to the Bank, free and clear of all liens and encumbrances, except for (i) current taxes and assessments not yet due and payable, (ii) inventory sold in the ordinary course of business, and (iii) those liens or encumbrances, if any, expressly permitted by Section 5.2 or specified on the Addendum.

3.7. Litigation. There are no actions, suits, proceedings or governmental investigations pending or, to its knowledge, threatened against the Borrower or any of its Subsidiaries, which would reasonably be expected to result in a material adverse change in its business, assets, operations, condition (financial or otherwise) or results of operations and there is no basis known to it for any action, suit, proceeding or investigation which would reasonably be expected to result in such a material adverse change. All such pending and threatened litigation against it is listed on the Addendum.

3.8. Tax Returns. The Borrower and each of its Subsidiaries has filed all returns and reports that are required to be filed by it in connection with any federal, state or local tax, duty or charge levied, assessed or imposed upon it or its property or withheld by it, including income, unemployment, social security and similar taxes, and all of such taxes have been either paid or adequate reserve or other provision has been made therefor.

3.9. Employee Benefit Plans. Each employee benefit plan as to which the Borrower or any of its Subsidiaries may have any liability complies in all material respects with all applicable provisions of the Employee Retirement Income Security Act of 1974 (as amended from time to time, “ERISA”), including minimum funding requirements, and (i) no Prohibited Transaction (as defined under ERISA) has occurred with respect to any such plan, (ii) no Reportable Event (as defined under Section 4043 of ERISA) has occurred with respect to any such plan which would cause the Pension Benefit Guaranty Corporation to institute proceedings under Section 4042 of ERISA, (iii) it has not withdrawn from any such plan or initiated steps to do so, and (iv) no steps have been taken to terminate any such plan.

3.10. Environmental Matters. The Borrower and each of its Subsidiaries is in compliance, in all material respects, with all Environmental Laws (as defined below), including, without limitation, all Environmental Laws in jurisdictions in which it owns or operates, or has owned or operated, a facility or site, stores assets, arranges or has arranged for disposal or treatment of hazardous substances, solid waste or other waste, accepts or has accepted for transport any hazardous substances, solid waste or other wastes or holds or has held any interest in real property or otherwise. Except as otherwise disclosed on the Addendum, no litigation or proceeding arising under, relating to or in connection with any Environmental Law is pending or, to the best of its knowledge, threatened against the Borrower or any of its Subsidiaries, any real property which it holds or has held an interest or any past or present operation of it. No release, threatened release or disposal of hazardous waste, solid waste or other wastes is occurring, or to the best of its knowledge has occurred, on, under or to any real property in which the Borrower or any of its Subsidiaries holds or has held any interest or performs or has performed any of its operations, in violation of any Environmental Law. As used in this Section, “litigation or proceeding” means any demand, claim notice, suit, suit in equity, action, administrative action, investigation or inquiry whether brought by a governmental authority or other Person, and “Environmental Laws” means all provisions of laws, statutes, ordinances, rules, regulations, permits, licenses, judgments, writs, injunctions, decrees, orders, awards and standards promulgated by any governmental authority concerning health, safety and protection of, or regulation of the discharge of substances into, the environment.

3.11. Intellectual Property. The Borrower and each of its Subsidiaries owns or is licensed to use all patents, patent rights, trademarks, trade names, service marks, copyrights, intellectual property, technology, know-how and processes necessary for the conduct of its business as currently conducted that are material to the condition (financial or otherwise), business or operations of it.

3.12. Regulatory Matters. No part of the proceeds of any Loan will be used for “purchasing” or “carrying” any “margin stock” within the respective meanings of each of the quoted terms under Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time in effect or for any purpose which violates the provisions of the Regulations of such Board of Governors.

3.13. Solvency. As of the date hereof and after giving effect to the transactions contemplated by this Agreement and the related loan documents, (i) the aggregate value of the assets the Borrower and each of its Subsidiaries will exceed its liabilities (including contingent, subordinated, unmatured and unliquidated liabilities), (ii) the Borrower and each of its Subsidiaries will have sufficient cash flow to enable it to pay its debts as they become due, and (iii) neither the Borrower nor any of its Subsidiaries will have unreasonably small capital for the business in which it is engaged.

3.14. Disclosure. Neither this Agreement nor any of the related Loan Documents contains or will contain any untrue statement of material fact or omits or will omit to state a material fact necessary in order to make the statements contained in this Agreement or the Loan Documents not misleading. There is no fact known to the Borrower which materially adversely affects or, so far as it can now foresee, would reasonably be expected to materially adversely affect the business, assets, operations, condition (financial or otherwise) or results of operation of the Borrower or any of its Subsidiaries.

3.15. Subsidiaries and Partnerships. Each Subsidiary of the Borrower, and each partnership or joint venture to which the Borrower is a party, is identified on Schedule 3.15. GIBT Ltd. and LSI Industries Foreign Sales Corporation have dissolved and no longer have a legal existence. Unless otherwise specified on Schedule 3.15, the Borrower owns 100% of the issued and outstanding equity interests or partnership interest (as applicable) of each Subsidiary and partnership listed on Schedule 3.15. Neither the Borrower nor any Subsidiary has any outstanding options, warrants or contracts to issue capital stock, membership interests or partnership interests of any kind. As used in this Agreement, “**Subsidiary**” means either (i) any corporation or limited liability company more than 50% of the outstanding voting securities of which shall at the time be owned or controlled, directly or indirectly, by the affected Person or one or more Subsidiaries or such Person, or by the affected Person and one or more Subsidiaries, or (ii) any other Person which is so owned or controlled. Unless otherwise specified, a reference to a “Subsidiary” will mean a Subsidiary of the Borrower.

4. Affirmative Covenants. The Borrower agrees that from the date of execution of this Agreement until all Obligations have been paid in full and any commitments of the Bank to the Borrower have been terminated, it will and will cause each of its Subsidiaries to:

4.1. Books and Records. Maintain books and records in accordance with GAAP and give representatives of the Bank access thereto at all reasonable times, including permission to examine, copy and make abstracts from any of such books and records and such other information as the Bank may from time to time reasonably request, and it will make available to the Bank for examination copies of any reports, statements and returns which it may make to or file with any federal, state or local governmental department, bureau or agency.

4.2. Quarterly Financial Statements. Furnish the Bank within forty-five (45) days after the end of each fiscal quarter internally prepared financial statements of the Borrower with respect to such fiscal quarter, which financial statements will: (a) include the Form 10-Q or Form 10-QSB filed by the Borrower with the Securities and Exchange Commission; (b) be in reasonable detail and in form reasonably satisfactory to the Bank, (c) be accompanied by a certificate as to compliance with applicable financial covenants (including detailed calculations thereof) for the period then ended and whether any Event of Default exists, and, if so, the nature thereof and the corrective measures the Borrower proposes to take, (d) include a balance sheet as of the end of such period, an income statement for such period and a statement of cash flows for such period, (e) include prior year comparisons and (f) be on a consolidated basis for the Borrower, its Subsidiaries and any entity into which the Borrower’s financial information is consolidated in accordance with GAAP.

4.3. Annual Financial Statements. Furnish the Bank within ninety (90) days after the end of each fiscal year of the Borrower annual audited financial statements which will: (a) include the Form 10-K or Form 10-KSB filed by the Borrower with the Securities and Exchange Commission; (b) include a balance sheet as of the end of such fiscal year, an income statement for such year, and a statement of cash flows for such fiscal year; (c) be on a consolidated basis with the Borrower, its Subsidiaries and any entity into which the Borrower’s financial information is consolidated in accordance with GAAP; (d) be accompanied by a certificate as to compliance with applicable financial covenants (containing detailed calculations of all financial covenants) for the period then ended and whether any Event of Default exists, and, if so, the nature thereof and the corrective measures the Borrower proposes to take, and (e) contain the unqualified opinion of an independent certified public accountant reasonably acceptable to the Bank and its examination will have been made in accordance with generally accepted auditing standards. In addition, the Borrower will provide to the Bank with the foregoing audited statements, internally prepared consolidating statements for the Borrower and its Subsidiaries.

4.4. Payment of Taxes and Other Charges. Pay and discharge when due all indebtedness and all taxes, assessments, charges, levies and other liabilities imposed upon it, its income, profits, property or business, except those which currently are being contested in good faith by appropriate proceedings and for which it shall have set aside adequate reserves or made other adequate provision with respect thereto acceptable to the Bank in its reasonable discretion.

4.5. Maintenance of Existence, Operation and Assets. Do all things necessary to (i) maintain, renew and keep in full force and effect its organizational existence and all rights, permits and franchises necessary to enable it to continue its business as currently conducted; (ii) continue in operation in substantially the same manner as at present; (iii) keep its properties in good operating condition and repair; and (iv) make all necessary and proper repairs, renewals, replacements, additions and improvements thereto.

4.6. Insurance. Maintain, with financially sound and reputable insurers reasonably acceptable to the Bank, property and liability insurance with respect to its business generally, and its properties against such casualties and contingencies, of such types and in such amounts, as is customary for established companies engaged in the same or similar business and similarly situated, and provide evidence of such insurance to the Bank promptly upon request. In the event of a conflict between the provisions of this Section and the terms of any Security Documents relating to insurance, the provisions in the Security Documents will control.

4.7. Compliance with Laws. Comply in all material respects with all laws applicable to the Borrower and to the operation of its business (including without limitation any statute, ordinance, rule or regulation relating to employment practices, pension benefits or environmental, occupational and health standards and controls).

4.8. Bank Accounts; Banking Services. For the Borrower and each Subsidiary organized in the United States, establish and maintain with the Bank substantially all of its depository, investment, operating and disbursement accounts and its treasury management arrangements.

4.9. Environmental Indemnification. The Borrower shall defend and indemnify the Bank and hold the Bank harmless from and against all loss, liability, damage, expense, claims, costs, fines, penalties, assessments (including interest on any of the foregoing) and reasonable attorneys' fees, suffered or incurred by the Bank which arise, result from or in any way relate to a breach or violation by the Borrower or any of its Subsidiaries of any Environmental Law, either prior to or subsequent to the date hereof, including the assertion or imposition of any lien or security interest on the Borrower's or any of its Subsidiaries' assets, or which relate to or arise out of any claim, suit, notice, order, demand or other communication made by any Person with respect to the Borrower or any of its Subsidiaries relating to environmental matters, except to the extent that the subject of indemnification is caused by or arises out of the gross negligence or willful misconduct of the Bank or its agents or employees. The Borrower's obligations hereunder shall survive the termination of this Agreement and the repayment of the Obligations.

4.10. Subsidiaries Becoming Guarantors. The Borrower promptly shall cause each Subsidiary which becomes a Subsidiary after the date of this Agreement to execute and deliver to the Bank a guaranty of the Obligations in form and substance acceptable to the Bank.

4.11. Financial Covenants.

(a) Consolidated Tangible Net Worth. Maintain Consolidated Tangible Net Worth greater than or equal to the sum of \$105,000,000 plus (i) an amount equal to 50% of the Borrower's Consolidated net income (if positive) for each fiscal quarter ending after June 30, 2014 plus (ii) one hundred percent (100%) of the proceeds of each Equity Offering occurring after June 30, 2014 after having deducted from the gross proceeds of such Equity Offering all costs and fees associated therewith.

(b) Leverage Ratio. Maintain a Leverage Ratio of not more than 2.00 to 1.00 as of the end of each fiscal quarter, on a historical rolling four quarters basis.

As used in this Agreement:

“**Consolidated**” means the consolidation in accordance with GAAP of the items as to which such term applies.

“**Consolidated EBITDA**” means, for the relevant period, the sum of the Borrower's (i) Consolidated net income, (ii) Consolidated income tax expense, (iii) Consolidated interest expense, (iv) Consolidated depreciation and amortization expenses and (v) other Consolidated non-cash expenses for the Borrower, all determined in accordance with GAAP; provided that there shall be excluded from Consolidated net income any extraordinary items of gain or loss (including, without limitation, those items created by mandated changes in GAAP).

“**Consolidated Indebtedness**” means all of the Borrower's Indebtedness determined on a Consolidated basis.

“**Consolidated Tangible Net Worth**” means, for the relevant period, on a Consolidated basis: (i) the sum of the amounts appearing on the balance sheet of such entity as (a) the stated value of all outstanding stock and (b) capital, paid-in and earned surplus; less (ii) the sum of (a) the deficit in any surplus or capital account, including treasury stock, (b) the amount of any write-up subsequent to 1999 in the book value of any asset owned on such date resulting from the revaluation thereof subsequent to such date or any write up of any asset in excess of the costs of the assets acquired, (c) any amounts by which patents, trademarks, trade names, organizational expenses and other intangible items of similar nature and goodwill appear on the asset side of such balance sheet, (d) any amounts at which shares of the capital stock of the Borrower appear on the asset side of such balance sheet, all as of the last day of the month previous to such particular time, and (e) any amounts for advances to shareholders, directors, officers, employees or Affiliates of the Borrower which appear on the asset side of the balance sheet, except those made in the ordinary course of business.

“Equity Offering” means the public or private issuance of capital stock of the Borrower other than that: (i) pursuant to an employee or director stock option plan, employee stock purchase plan, 401(k) plan, or other employee benefit arrangement, or (ii) issued solely for acquiring a Person as permitted hereunder.

“Indebtedness” means, without duplication: (i) all obligations (including capitalized lease obligations) which in accordance with generally accepted accounting principles would be shown on a balance sheet as a liability; (ii) all obligations for borrowed money or for the deferred purchase price of property or services; and (iii) all guarantees, reimbursement, payment or similar obligations, absolute, contingent or otherwise, under acceptance, letter of credit or similar facilities; provided, however, that Indebtedness shall not include accounts payable incurred in the ordinary course of business or accruals, made in accordance with GAAP, for liabilities for expenses incurred in the ordinary course of business, if those accounts payable or accrued liabilities do not constitute or represent obligations to repay borrowed money.

“Leverage Ratio” means, as of any date of determination, the ratio of (i) the Borrower’s Consolidated Indebtedness to (ii) the Borrower’s Consolidated EBITDA for the immediately preceding four fiscal quarters treated as a single accounting period.

“Permitted Liens” means any of the following:

(a) liens securing the payment of taxes, either not yet due or the validity of which is being contested in good faith by appropriate proceedings, and as to which the Borrower has set aside on its books adequate reserves to the extent required by generally accepted accounting principles;

(b) deposits under workers’ compensation, unemployment insurance and social security laws, or to secure the performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases, or to secure statutory obligations or surety or appeal bonds, or to secure indemnity, performance or other similar bonds in the ordinary course of business;

(c) liens imposed by law, such as carrier’s, warehousemen’s or mechanics’ liens, incurred by the Borrower in good faith in the ordinary course of business, and liens arising out of a judgment or award against the Borrower with respect to which the Borrower will currently be prosecuting an appeal, a stay of execution pending such appeal having been secured;

(d) liens in favor of the Bank;

(e) reservations, exceptions, encroachments and other similar title exceptions or encumbrances affecting real properties, provided such do not materially detract from the use or value thereof as used by the owner thereof;

(f) attachment, judgment, and similar liens provided that execution is effectively stayed pending a good faith contest;

(g) liens created by purchase money security interests or related to the leasing of equipment limited to the capital assets financed not to exceed \$2,000,000;

(h) liens on equipment, machinery, and/or real property that: (i) are related to the assumption of liabilities by the Borrower in connection with merger and acquisition activities not to exceed \$15,000,000 in the aggregate; (ii) are limited to the equipment, machinery, and/or real property acquired; and (iii) are not created at the time of or in contemplation of such merger or acquisition; and

(i) liens that are satisfied or intended to be satisfied at the time of the closing or no longer than thirty (30) days thereafter on a merger or acquisition by the Borrower permitted hereunder.

“**Person**” means any individual, corporation, limited liability company, partnership, trust, joint venture, unincorporated organization, association, government (foreign or domestic), any agency or political subdivisions thereof, or any other entity.

4.12. Additional Reports. Promptly upon discovery, provide written notice to the Bank of the occurrence of any of the following (together with a description of the action which the Borrower proposes to take with respect thereto): (i) any Event of Default or any condition, event, omission or act which, with the passage of time or the giving of notice, or both, would constitute an Event of Default (a “**Default**”), (ii) any litigation filed by or against the Borrower or any of its Subsidiaries which, if adversely determined, would reasonably be expected to result in a material adverse change in the business, assets, operations, condition (financial or otherwise) or results of operations of the Borrower or such Subsidiary, (iii) any Reportable Event or Prohibited Transaction with respect to any Employee Benefit Plan(s) (as each such term is defined in ERISA) or (iv) any other event or circumstance which would reasonably be expected to result in a material adverse change in the business, assets, operations, condition (financial or otherwise) or results of operations of the Borrower or any of its Subsidiaries.

5. Negative Covenants. The Borrower covenants and agrees that from the date of this Agreement until all Obligations have been paid in full and any commitments of the Bank to the Borrower have been terminated, it will not and will cause each of its Subsidiaries to not:

5.1. Indebtedness. Create, incur, assume or permit to exist or remain outstanding any Indebtedness, except for:

- (a) Any Indebtedness owed by the Borrower or any of its Subsidiaries to the Bank or to PNC Bank Canada Branch;
- (b) Consolidated Indebtedness of the Borrower and its Subsidiaries existing on the Closing Date to remain outstanding and unpaid after the Closing Date and listed on Schedule 5.1 and any extensions, renewals or refinancings thereof, in outstanding principal amounts not greater than those shown on Schedule 5.1;
- (c) Rental and lease payments for real or personal property whose aggregate annual rental payments would exceed \$5,000,000 in the aggregate for Borrower and Guarantors combined when added to their combined rental or lease agreements existing on the date hereof;
- (d) Indebtedness secured by Permitted Liens; and
- (e) Indebtedness assumed by the Borrower in connection with merger and acquisition activities permitted hereunder that do not exceed \$15,000,000 in the aggregate outstanding at any one time or that are satisfied by the Borrower at the time of the closing of the related merger or acquisition.

5.2. Liens and Encumbrances; Negative Pledge. Create, assume, incur or suffer to exist any lien, security interest or other encumbrance upon any of their respective assets and properties, whether tangible or intangible, whether now owned or in existence or hereafter acquired or created and wherever located, nor acquire nor agree to acquire any assets or properties subject to a lien, security interest or other encumbrance, except for Permitted Liens. The Borrower shall not and shall not permit its Subsidiaries to make or enter into any agreement (other than agreements with the Bank or PNC Bank Canada Branch) for the benefit of any Person not to grant liens or security interests.

5.3. No Limitation on Dividends and Distributions. The Borrower shall not permit its Subsidiaries to enter into or otherwise be bound by any agreement not to pay dividends to the Borrower.

5.4. Liquidations, Mergers, Consolidations, Etc. Dissolve, liquidate or wind up their respective affairs, or become a party to any merger or consolidation; provided, however, any Subsidiary may merge into or consolidate with any other Subsidiary and any Subsidiary may merge into or consolidate with the Borrower, with the Borrower being the surviving Person; and provided, further, the Borrower or any Subsidiary may merge or consolidate with or into any other Person which is not a Subsidiary so long as (i) the Borrower or such Subsidiary, as the case may be, is the surviving Person, (ii) at the time of such merger or consolidation, no Default or Event of Default has occurred and is continuing; (iii) such merger or consolidation shall not itself cause there to be a Default or Event of Default; (iv) such merger or acquisition is related to lines or areas of business not substantially different from the business or activities in which the Borrower or such Subsidiary is presently engaged; and (v) for any such merger or acquisition involving the expenditure of consideration having a value of \$20,000,000 by the Borrower (including the assumption of liabilities), the Borrower provides prior written notice to the Bank and demonstrates to the Bank that such merger or acquisition will not cause the Borrower to violate any term of this Agreement.

5.5. Disposition of Assets. Sell, convey, assign, lease, abandon or otherwise transfer or dispose of, voluntarily or involuntarily, any of their respective properties or assets, whether tangible or intangible, except for (i) sales, conveyances, assignments, leases or transfers in the ordinary course of their respective businesses, (ii) sales, conveyances, assignments, leases or transfers of assets which are obsolete, of immaterial value, or no longer utilized in the business of the Borrower and (iii) sales, conveyances, assignments, leases or transfers not covered by items (i) or (ii) above, provided that the aggregate proceeds of all such sales, transfers or other dispositions permitted by this item (iii) shall not exceed \$5,000,000 in the aggregate in any one fiscal year of the Borrower.

6. Events of Default. The occurrence of any of the following will be deemed to be an “**Event of Default**”:

6.1. Covenant Default. A default in the performance of any of the covenants or agreements contained in this Agreement and the failure or inability of the Borrower to cure such default within 30 days after the occurrence thereof; provided that such 30 day grace period will not apply to: (a) any default which in the Bank’s good faith determination is incapable of cure, (b) any default that has previously occurred, (c) any default in any financial covenants or any negative covenants, or (d) any failure to maintain insurance or to permit inspection of the books and records of the Borrower and its Subsidiaries.

6.2. Breach of Warranty. Any financial statement, representation, warranty or certificate made or furnished by to the Bank in connection with this Agreement or the other Loan Documents shall be false, incorrect or incomplete when made.

6.3. Other Default. The occurrence of any Event of Default as defined in the Note or any of the other Loan Documents.

Upon the occurrence and during the continuation of an Event of Default, the Bank will have all rights and remedies specified in the Note and the Loan Documents and all rights and remedies (all of which are cumulative and not exclusive) available at law or in equity.

7. Conditions. The Bank’s obligation to close and make any advance under the Loans is subject to the conditions that as of the date of closing and each such advance:

7.1. No Event of Default. No Default or Event of Default shall have occurred and be continuing; and

7.2. Receipt of Documents. The Bank shall have received the Loan Documents and such other instruments, agreements, and documents which the Bank may reasonably request in connection with the transactions provided for in this Agreement, all in form and substance acceptable to the Bank.

8. Expenses. The Borrower agrees to pay the Bank (i) upon the execution of this Agreement, and otherwise on demand, all reasonable costs and expenses incurred by the Bank in connection with the preparation, negotiation and delivery of this Agreement and the other Loan Documents, and (ii) all reasonable costs and expenses incurred by the Bank in connection with any modifications thereto, and the collection of all of the Obligations, including but not limited to enforcement actions, relating to the Loans, whether through judicial proceedings or otherwise, or in defending or prosecuting any actions or proceedings arising out of or relating to this Agreement, including reasonable fees and expenses of outside counsel, expenses for auditors, appraisers and consultants, lien searches, recording and filing fees and taxes.

9. Increased Costs. On written demand, together with written evidence of the justification therefor, the Borrower agrees to pay the Bank all direct costs incurred and any losses suffered or payments made by the Bank as a consequence of making the Loans by reason of any change in law or regulation, or the interpretation thereof, imposing any reserve, deposit, allocation of capital or similar requirement (including without limitation, Regulation D of the Board of Governors of the Federal Reserve System) on the Bank, its holding company or any of their respective assets. Notwithstanding anything herein to the contrary, (i) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, regulations, guidelines, interpretations or directives thereunder or issued in connection therewith (whether or not having the force of law) and (ii) all requests, rules, regulations, guidelines, interpretations or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities (whether or not having the force of law), in each case pursuant to Basel III, shall in each case be deemed to be a change in law regardless of the date enacted, adopted, issued, promulgated or implemented.

10. Miscellaneous.

10.1. Notices. All notices, demands, requests, consents, approvals and other communications required or permitted hereunder (“Notices”) must be in writing and will be effective upon receipt. Notices may be given in any manner to which the parties may separately agree, including electronic mail. Without limiting the foregoing, first-class mail, facsimile transmission and commercial courier service are hereby agreed to as acceptable methods for giving Notices. Regardless of the manner in which provided, Notices may be sent to a party’s address as set forth above or to such other address as any party may give to the other for such purpose in accordance with this section.

10.2. Preservation of Rights. No delay or omission on the Bank’s part to exercise any right or power arising hereunder will impair any such right or power or be considered a waiver of any such right or power, nor will the Bank’s action or inaction impair any such right or power. The Bank’s rights and remedies hereunder are cumulative and not exclusive of any other rights or remedies which the Bank may have under other agreements, at law or in equity.

10.3. Illegality. If any provision contained in this Agreement should be invalid, illegal or unenforceable in any respect, it shall not affect or impair the validity, legality and enforceability of the remaining provisions of this Agreement.

10.4. Changes in Writing. No modification, amendment or waiver of, or consent to any departure by the Borrower from, any provision of this Agreement will be effective unless made in a writing signed by the party to be charged, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Notwithstanding the foregoing, the Bank may modify this Agreement or any of the other Loan Documents for the purposes of completing missing content or correcting erroneous content, without the need for a written amendment, provided that the Bank shall send a copy of any such modification to the Borrower (which notice may be given by electronic mail). No notice or demand on the Borrower will entitle the Borrower to any other or further notice or demand in the same, similar or other circumstance.

10.5. Entire Agreement. This Agreement (including the documents and instruments referred to herein) constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof.

10.6. Counterparts. This Agreement may be signed in any number of counterpart copies and by the parties hereto on separate counterparts, but all such copies shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by facsimile transmission shall be effective as delivery of a manually executed counterpart. Any party so executing this Agreement by facsimile transmission shall promptly deliver a manually executed counterpart, provided that any failure to do so shall not affect the validity of the counterpart executed by facsimile transmission.

10.7. Successors and Assigns. This Agreement will be binding upon and inure to the benefit of the Borrower and the Bank and their respective successors and assigns; provided, however, that the Borrower may not assign this Agreement in whole or in part without the Bank’s prior written consent and the Bank at any time may assign this Agreement in whole or in part.

10.8. Interpretation. In this Agreement, unless the Bank and the Borrower otherwise agree in writing, the singular includes the plural and the plural the singular; words importing any gender include the other genders; references to statutes are to be construed as including all statutory provisions consolidating, amending or replacing the statute referred to; the word “or” shall be deemed to include “and/or”, the words “including”, “includes” and “include” shall be deemed to be followed by the words “without limitation”; references to articles, sections (or subdivisions of sections) or exhibits are to those of this Agreement; and references to agreements and other contractual instruments shall be deemed to include all subsequent amendments and other modifications to such instruments, but only to the extent such amendments and other modifications are not prohibited by the terms of this Agreement. Section headings in this Agreement are included for convenience of reference only and shall not constitute a part of this Agreement for any other purpose. Unless otherwise specified in this Agreement, all accounting terms shall be interpreted and all accounting determinations shall be made in accordance with GAAP.

10.9. No Consequential Damages, Etc. The Bank will not be responsible for any damages, consequential, incidental, special, punitive or otherwise, that may be incurred or alleged by the Borrower, any Guarantor or any other Person as a result of this Agreement, the other Loan Documents, the transactions contemplated hereby or thereby, or the use of the proceeds of any of the Loans.

10.10. Claims; Release of Claims. The Borrower represents and warrants to the Bank that neither the Borrower nor any Subsidiary has any claims, counterclaims, setoffs, actions or causes of action, damages or liabilities of any kind or nature whatsoever whether at law or in equity, in contract or in tort, whether now accrued or hereafter maturing (collectively, "Claims") against the Bank, its direct or indirect parent corporation or any direct or indirect affiliates of such parent corporation, or any of their respective directors, officers, employees, agents, attorneys and legal representatives, or the heirs, administrators, successors or assigns of any of them (collectively, "Lender Parties"), that directly or indirectly arise out of, are based upon, or are in any manner connected with, any Prior Related Event. As an inducement to the Bank to enter into this Agreement, the Borrower, on behalf of itself and its Subsidiaries and their respective successors and assigns, hereby knowingly and voluntarily releases and discharges all Lender Parties from any and all Claims, whether known or unknown, that directly or indirectly arise out of, are based upon, or are in any manner connected with, any Prior Related Event. As used herein, the term "Prior Related Event" means any transaction, event, circumstance, action, failure to act, or occurrence of any sort or type, whether known or unknown, which occurred, existed, was taken, was permitted or begun at any time prior to the date hereof or occurred, existed, was taken, was permitted or begun in accordance with, pursuant to, or by virtue of, any of the terms of the Prior Credit Agreement or any other Loan Document or which was related to or connected in any manner, directly or indirectly, to the credit facilities described in the Prior Credit Agreement.

10.11. Assignments and Participations. At any time, without any notice to the Borrower, the Bank may sell, assign, transfer, negotiate, grant participations in, or otherwise dispose of all or any part of the Bank's interest in the Loans. The Borrower hereby authorizes the Bank to provide, without any notice to the Borrower, any information concerning the Borrower, including information pertaining to the Borrower's financial condition, business operations or general creditworthiness, to any Person which may succeed to or participate in all or any part of the Bank's interest in the Loans.

10.12 Governing Law and Jurisdiction. This Agreement has been delivered to and accepted by the Bank and will be deemed to be made in the State where the Bank's office indicated above is located. **This Agreement will be interpreted and the rights and liabilities of the parties hereto determined in accordance with the laws of the State of Ohio, excluding its conflict of laws rules.** The Borrower hereby irrevocably consents to the exclusive jurisdiction of any state or federal court located in Hamilton County, Ohio; provided that nothing contained in this Agreement will prevent the Bank from bringing any action, enforcing any award or judgment or exercising any rights against the Borrower individually, or against any security or property of the Borrower, within any other county, state or other foreign or domestic jurisdiction. The Bank and the Borrower agree that the venue provided above is the most convenient forum for both the Bank and the Borrower. The Borrower waives any objection to venue and any objection based on a more convenient forum in any action instituted under this Agreement.

10.13. WAIVER OF JURY TRIAL. THE BORROWER AND THE BANK EACH IRREVOCABLY WAIVES ANY AND ALL RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR CLAIM OF ANY NATURE RELATING TO THIS AGREEMENT, ANY DOCUMENTS EXECUTED IN CONNECTION WITH THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED IN ANY OF SUCH DOCUMENTS. THE BORROWER AND THE BANK EACH ACKNOWLEDGES THAT THE FOREGOING WAIVER IS KNOWING AND VOLUNTARY.

The Borrower acknowledges that it has read and understood all the provisions of this Agreement, including the waiver of jury trial, and has been advised by counsel as necessary or appropriate.

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IN WITNESS WHEREOF, the Borrower and the Bank have executed and delivered this Amended and Restated Loan Agreement as of the date first set forth above.

BORROWER:

LSI INDUSTRIES INC.

By: /s/ Ronald S. Stowell
Ronald S. Stowell
Vice President, Chief Financial Officer and Treasurer

BANK:

PNC BANK, NATIONAL ASSOCIATION

By: /s/ Gregory S. Buchanan
Gregory S. Buchanan
Senior Vice President

ADDENDUM to that certain Amended and Restated Loan Agreement dated as of June 19, 2014 (the “**Agreement**”) between **LSI INDUSTRIES INC.** (the “**Borrower**”) and **PNC BANK, NATIONAL ASSOCIATION** (the “**Bank**”). Capitalized terms used in this Addendum and not otherwise defined shall have the meanings given them in the Agreement. Section numbers below refer to the sections of the Agreement.

3.1. **Existence, Power and Authority.** None

3.2. **Financial Statements.** None

3.3. **No Material Adverse Change.** None

3.4. **Binding Obligations.** None

3.5. **No Defaults or Violations.** None

3.6. **Title to Assets.** None

3.7. **Litigation.** None

3.8. **Tax Returns.** None

3.9. **Employee Benefit Plans.** None

3.10. **Environmental Matters.** None

3.11. **Intellectual Property.** None

3.12. **Regulatory Matters.** None

3.13. **Solvency.** None

3.14. **Disclosure.** None

Schedule 3.15 - Equity Interests; Subsidiaries & Partnerships.

LSI Midwest Lighting Inc.
LSI Adapt Inc.
Grady McCauley Inc.
LSI Integrated Graphics LLC
LSI Kentucky LLC
LSI Lightron Inc.
LSI Retail Graphics LLC
LSI ADL Technology LLC
LSI SACO Technologies Inc.
LSI Controls Inc.
LSI Greenlee Lighting Inc.
LSI Marcole Inc.



Loan Agreement

THIS LOAN AGREEMENT (the “**Agreement**”) is entered into as of June 19, 2014 between **LSI SACO TECHNOLOGIES INC.** (the “**Borrower**”), with an address at c/o LSI Industries Inc., 10000 Alliance Road, Cincinnati, Ohio 45242, Attn: Chief Financial Officer, and **PNC BANK CANADA BRANCH** (the “**Bank**”), with an address at 130 King Street West, Suite 2140, Toronto, Ontario, Canada, M5X 1E4, Attn: Caroline Stade.

The Borrower and the Bank, with the intent to be legally bound, agree as follows:

1. **Credit Facilities; Facility Fee; Margin.**

1.1. Loans. The Bank has made or may make one or more loans (collectively, the “**Loans**”) to the Borrower subject to the terms and conditions and in reliance upon the representations and warranties of the Borrower set forth in this Agreement. The Loans shall be used by the Borrower for general corporate purposes including acquisitions permitted hereunder. As of the date hereof, the Loans include a revolving credit loan (the “**Revolving Loan**”) in the principal amount of up to US\$5,000,000. The Loans are or will be evidenced by a promissory note or notes of the Borrower and all renewals, extensions, amendments and restatements thereof (if one or more, collectively, the “**Note**”) acceptable to the Bank, which may set forth the interest rate, repayment and other provisions, the terms of which are incorporated into this Agreement by reference.

1.2. Letters of Credit. The Borrower may request that the Bank, in lieu of cash advances, issue trade or standby letters of credit (individually, a “**Letter of Credit**” and collectively the “**Letters of Credit**”) under the Revolving Loan in face amount in the aggregate at any time outstanding not to exceed US\$500,000. The availability of advances under the Revolving Loan shall be reduced by the face amount of each Letter of Credit issued and outstanding. For purposes of this Agreement, the “**face amount**” of any Letter of Credit shall include any automatic increases in face amount under the terms of such Letter of Credit, whether or not any such increase in face amount has become effective. Unless otherwise consented to by the Bank in writing, each Letter of Credit shall have an expiry date which is not later than the Expiration Date (as defined in the Note evidencing the Revolving Loan) of the Revolving Loan (the “**Final LC Expiration Date**”). Each payment by the Bank under a Letter of Credit shall constitute an advance of principal under the Revolving Loan and shall be evidenced by the Note evidencing the Revolving Loan. The Letters of Credit shall be governed by the terms of this Agreement and by one or more reimbursement agreements, in form and content satisfactory to the Bank, executed by the Borrower in favor of the Bank (collectively, the “**Reimbursement Agreement**”). Each request for the issuance of a Letter of Credit must be accompanied by the Borrower’s execution of an application on the Bank’s standard forms (each, an “**Application**”), together with all supporting documentation. Each Letter of Credit will be issued in the Bank’s sole discretion and in a form acceptable to the Bank. This Agreement is not a pre-advance for the issuance of a letter of credit and is not irrevocable. The Borrower shall pay the Bank’s standard issuance fee on the face amount of each Letter of Credit upon issuance, together with such other customary fees and expenses therefore as shall be required by the Bank. In addition, the Borrower shall pay to the Bank a fee (the “**Letter of Credit Commission**”), calculated daily (on the basis of a year of 365 days), on the amount available to be drawn at such time under all Letters of Credit issued and outstanding under the Revolving Loan (including any amounts drawn thereunder and not reimbursed, regardless of the existence or satisfaction of any conditions or limitations on drawing) each day at a rate equal to the LIBOR Applicable Margin per annum. The Letter of Credit Commission shall be payable quarterly in arrears on the first day of each fiscal quarter during which any Letter of Credit is outstanding and on the Final LC Expiration Date. Notwithstanding the foregoing, after the occurrence and during the continuance of an Event of Default, the Letter of Credit Commission, as calculated above, shall be increased by three percent (3.00%) per annum.

1.3. Facility Fee. If, for any calendar quarter, the sum of the average daily outstanding balance of the Revolving Loan and the face amount of outstanding Letters of Credit does not equal the maximum facility amount of the Revolving Loan, then Borrower shall pay to the Bank a fee at a rate equal to 0.15% per annum on the amount by which the maximum facility amount of the Revolving Loan exceeds such sum. Such fee shall be payable to the Bank in arrears on the first day of each calendar quarter with respect to the previous calendar quarter.

1.4. Applicable Margin.

(a) The Borrower shall pay interest on the Loans in accordance with the Note. As used in the Note, the “LIBOR Applicable Margin” with respect to the Loans shall be defined and determined as follows:

Leverage Ratio	LIBOR Applicable Margin
< 1.00 to 1.00	1.50%
≥ 1.00 to 1.00 and ≤ 1.50 to 1.00	1.65%
> 1.50 to 1.00	1.90%

(b) The Leverage Ratio shall be calculated in the manner set forth in Section 4.10. All adjustments to the LIBOR Applicable Margin based on the Leverage Ratio shall be effective prospectively on the first day of the fiscal quarter following the submission of the quarterly financial statements to the Bank for the prior fiscal quarter in accordance herewith. No downward adjustments shall occur if, at the time such downward adjustment would otherwise be made, there shall exist any Event of Default, provided that such downward adjustment shall be made on the first day of the quarter after the date on which the applicable Event of Default shall have been waived by the Bank in writing.

(c) If the quarterly financial statements are not timely delivered to the Bank for the end of the applicable fiscal quarter in accordance with Section 4.2, the LIBOR Applicable Margin shall be conclusively presumed to equal the highest LIBOR Applicable Margin specified in the pricing table set forth above until the date of delivery of such quarterly financial statements and the related compliance certificate, on which date the rate will be adjusted prospectively based upon the Leverage Ratio reflected in such quarterly financial statements. The application of the foregoing shall not be deemed a waiver of any rights the Bank may have as a result of the failure by the Borrower to deliver such financial statements or any related compliance certificate.

(d) In the event of any discrepancy between the computation of the Leverage Ratio for a particular quarter based upon the quarterly financial statements for such quarter and the related annual financial statements furnished pursuant to Section 4.3, the computation based on such annual financial statements shall govern retroactive to the date as to which such adjustment applies. In the event of a retroactive correction in favor of the Bank, the amount of interest thereby overdue and payable by the Borrower shall be paid to the Bank within five (5) days after the date of such retroactive correction. In the event of a retroactive correction of the Leverage Ratio in favor of the Borrower, the amount of interest overpaid by the Borrower shall be applied as a credit against any fees, charges, interest or principal payments then due hereunder or to become due hereunder in the order determined by the Bank. The Borrower’s calculation of the Leverage Ratio shall not be binding upon the Bank. The Bank may, in its reasonable discretion, elect to separately calculate the Leverage Ratio and the Bank’s calculation shall control in the event of any discrepancy.

1.5. Related Line of Credit. If the \$30,000,000 revolving credit facility made available by PNC Bank, National Association to LSI Industries Inc. terminates or expires prior to the Expiration Date specified in the Note (as such Expiration Date may be extended in writing from time to time), the Bank’s loan commitments hereunder will be deemed terminated and the Borrower will prepay the Loans in full on such termination or expiration date.

2. Security. The security for repayment of the Loans shall include but not be limited to the guaranties, collateral and other security documents heretofore, contemporaneously or hereafter executed and delivered to the Bank (the “**Security Documents**”), which shall secure repayment of the Loans, the Note and all other loans, advances, debts, liabilities, obligations, covenants and duties owing by the Borrower to the Bank or to any other direct or indirect subsidiary of The PNC Financial Services Group, Inc., of any kind or nature, present or future (including any interest accruing thereon after maturity, or after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding relating to the Borrower, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), whether direct or indirect (including those acquired by assignment or participation), absolute or contingent, joint or several, due or to become due, now existing or hereafter arising, whether or not (i) evidenced by any note, guaranty or other instrument, (ii) arising under any agreement, instrument or document, (iii) for the payment of money, (iv) arising by reason of an extension of credit, opening of a letter of credit, loan, equipment lease or guarantee, (v) under any interest or currency swap, future, option or other interest rate protection or similar agreement, (vi) under or by reason of any foreign currency transaction, forward, option or other similar transaction providing for the purchase of one currency in exchange for the sale of another currency, or in any other manner, or (vii) arising out of overdrafts on deposit or other accounts or out of electronic funds transfers (whether by wire transfer or through automated clearing houses or otherwise) or out of the return unpaid of, or other failure of the Bank to receive final payment for, any check, item, instrument, payment order or other deposit or credit to a deposit or other account, or out of the Bank’s non-receipt of or inability to collect funds or otherwise not being made whole in connection with depository or other similar arrangements; and any amendments, extensions, renewals and increases of or to any of the foregoing, and all reasonable costs and reasonable expenses of the Bank incurred in the documentation, negotiation, modification, enforcement, collection and otherwise in connection with any of the foregoing, including reasonable attorneys’ fees of outside counsel and expenses (hereinafter referred to collectively as the “**Obligations**”). Unless expressly provided to the contrary in documentation for any other loan or loans, it is the express intent of the Bank and the Borrower that all Obligations including those included in the Loans be cross-collateralized and cross-defaulted, such that collateral securing any of the Obligations shall secure repayment of all Obligations and a default under any Obligation shall be a default under all Obligations.

This Agreement, the Note, the Security Documents and all other agreements and documents executed and/or delivered pursuant hereto, as each may be amended, modified, extended or renewed from time to time, are collectively referred to as the “**Loan Documents.**” Capitalized terms not defined herein shall have the meanings ascribed to them in the Loan Documents.

3. Representations and Warranties. The Borrower hereby makes the following representations and warranties, which shall be continuing in nature and remain in full force and effect until the Obligations are paid in full, and which shall be true and correct except as otherwise set forth on the Addendum attached hereto and incorporated herein by reference (the “**Addendum**”):

3.1. Existence, Power and Authority. The Borrower is duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization and has the power and authority to own and operate its assets and to conduct its business as now or as it is then carried on, and is duly qualified, licensed and in good standing to do business in all jurisdictions where its ownership of property or the nature of its business requires such qualification or licensing. The Borrower is duly authorized to execute and deliver the Loan Documents to which it is a party, all necessary action to authorize the execution and delivery of such Loan Documents has been properly taken, and the Borrower is and will continue to be duly authorized to borrow under this Agreement and to perform all of the other terms and provisions of the Loan Documents as they relate to the Borrower.

3.2. Financial Statements. The most recent quarterly and annual financial statements of LSI Industries Inc., an Ohio corporation (the “**Parent**”), as delivered to the Bank, are true, complete and accurate in all material respects and fairly present the financial condition, assets and liabilities, whether accrued, absolute, contingent or otherwise and the results of operations of the Parent and its subsidiaries (including the Borrower) for the period specified therein. Such financial statements have been prepared in accordance with generally accepted accounting principles (“**GAAP**”) consistently applied from period to period, subject in the case of interim statements to normal year-end adjustments and to any comments and notes included therein.

3.3. No Material Adverse Change. Since the date of the Parent’s most recent quarterly and annual financial statements delivered to the Bank, neither the Borrower nor the Parent has suffered any damage, destruction or loss, and no event or condition has occurred or exists, which has resulted or would reasonably be expected to result in a material adverse change in the business, assets, operations, condition (financial or otherwise) or results of operations of the Borrower or the Parent.

3.4. Binding Obligations. The Borrower has full power and authority to enter into the transactions provided for in this Agreement and has been duly authorized to do so by appropriate action of its Board of Directors (or comparable governing body) or otherwise as may be required by law, charter, other organizational documents or agreements; and the Loan Documents, when executed and delivered by the Borrower, will constitute the legal, valid and binding obligations of the Borrower enforceable in accordance with their terms.

3.5. No Defaults or Violations. There does not exist any Event of Default under this Agreement or any default or violation by the Borrower of or under any of the terms, conditions or obligations of: (i) its organizational documents; (ii) any indenture, mortgage, deed of trust, franchise, permit, contract, agreement, or other instrument to which it is a party or by which it is bound; or (iii) any law, ordinance, regulation, ruling, order, injunction, decree, condition or other requirement applicable to or imposed upon it by any law, the action of any court or any governmental authority or agency; and the consummation of this Agreement and the transactions set forth herein will not result in any such default or violation or Event of Default.

3.6. Title to Assets. The Borrower has good and marketable title to the assets reflected on the most recent quarterly and annual financial statements delivered to the Bank, free and clear of all liens and encumbrances, except for (i) current taxes and assessments not yet due and payable, (ii) inventory sold in the ordinary course of business, and (iii) those liens or encumbrances, if any, expressly permitted by Section 5.2 or specified on the Addendum.

3.7. Litigation. There are no actions, suits, proceedings or governmental investigations pending or, to its knowledge, threatened against the Borrower, which would reasonably be expected to result in a material adverse change in its business, assets, operations, condition (financial or otherwise) or results of operations and there is no basis known to it for any action, suit, proceeding or investigation which would reasonably be expected to result in such a material adverse change. All such pending and threatened litigation against it is listed on the Addendum.

3.8. Tax Returns. The Borrower has filed all returns and reports that are required to be filed by it in connection with any federal, state or local tax, duty or charge levied, assessed or imposed upon it or its property or withheld by it, including income, unemployment, social security and similar taxes, and all of such taxes have been either paid or adequate reserve or other provision has been made therefor.

3.9. Employee Benefit Plans. Each employee benefit plan as to which the Borrower may have any liability complies in all material respects with all applicable provisions of the Employee Retirement Income Security Act of 1974 (as amended from time to time, “ERISA”), including minimum funding requirements, and (i) no Prohibited Transaction (as defined under ERISA) has occurred with respect to any such plan, (ii) no Reportable Event (as defined under Section 4043 of ERISA) has occurred with respect to any such plan which would cause the Pension Benefit Guaranty Corporation to institute proceedings under Section 4042 of ERISA, (iii) it has not withdrawn from any such plan or initiated steps to do so, and (iv) no steps have been taken to terminate any such plan.

3.10. Environmental Matters. The Borrower is in compliance, in all material respects, with all Environmental Laws (as defined below), including, without limitation, all Environmental Laws in jurisdictions in which it owns or operates, or has owned or operated, a facility or site, stores assets, arranges or has arranged for disposal or treatment of hazardous substances, solid waste or other waste, accepts or has accepted for transport any hazardous substances, solid waste or other wastes or holds or has held any interest in real property or otherwise. Except as otherwise disclosed on the Addendum, no litigation or proceeding arising under, relating to or in connection with any Environmental Law is pending or, to the best of its knowledge, threatened against the Borrower, any real property which it holds or has held an interest or any past or present operation of it. No release, threatened release or disposal of hazardous waste, solid waste or other wastes is occurring, or to the best of its knowledge has occurred, on, under or to any real property in which the Borrower holds or has held any interest or performs or has performed any of its operations, in violation of any Environmental Law. As used in this Section, “**litigation or proceeding**” means any demand, claim notice, suit, suit in equity, action, administrative action, investigation or inquiry whether brought by a governmental authority or other Person, and “**Environmental Laws**” means all provisions of laws, statutes, ordinances, rules, regulations, permits, licenses, judgments, writs, injunctions, decrees, orders, awards and standards promulgated by any governmental authority concerning health, safety and protection of, or regulation of the discharge of substances into, the environment.

3.11. Intellectual Property. The Borrower owns or is licensed to use all patents, patent rights, trademarks, trade names, service marks, copyrights, intellectual property, technology, know-how and processes necessary for the conduct of its business as currently conducted that are material to the condition (financial or otherwise), business or operations of it.

3.12. Regulatory Matters. No part of the proceeds of any Loan will be used for “purchasing” or “carrying” any “margin stock” within the respective meanings of each of the quoted terms under Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time in effect or for any purpose which violates the provisions of the Regulations of such Board of Governors.

3.13. Solvency. As of the date hereof and after giving effect to the transactions contemplated by this Agreement and the related loan documents, (i) the aggregate value of the assets the Borrower will exceed its liabilities (including contingent, subordinated, unmatured and unliquidated liabilities), (ii) the Borrower will have sufficient cash flow to enable it to pay its debts as they become due, and (iii) the Borrower will not have unreasonably small capital for the business in which it is engaged.

3.14. Disclosure. Neither this Agreement nor any of the related Loan Documents contains or will contain any untrue statement of material fact or omits or will omit to state a material fact necessary in order to make the statements contained in this Agreement or the Loan Documents not misleading. There is no fact known to the Borrower which materially adversely affects or, so far as it can now foresee, would reasonably be expected to materially adversely affect the business, assets, operations, condition (financial or otherwise) or results of operation of the Borrower.

3.15. Subsidiaries and Partnerships. Each Subsidiary of the Borrower, and each partnership or joint venture to which the Borrower is a party, is identified on Schedule 3.15. Unless otherwise specified on Schedule 3.15, the Borrower owns 100% of the issued and outstanding equity interests or partnership interest (as applicable) of each Subsidiary and partnership listed on Schedule 3.15. Neither the Borrower nor any Subsidiary has any outstanding options, warrants or contracts to issue capital stock, membership interests or partnership interests of any kind. As used in this Agreement, “**Subsidiary**” means either (i) any corporation or limited liability company more than 50% of the outstanding voting securities of which shall at the time be owned or controlled, directly or indirectly, by the affected Person or one or more Subsidiaries or such Person, or by the affected Person and one or more Subsidiaries, or (ii) any other Person which is so owned or controlled. Unless otherwise specified, a reference to a “Subsidiary” will mean a Subsidiary of the Borrower.

4. Affirmative Covenants. The Borrower agrees that from the date of execution of this Agreement until all Obligations have been paid in full and any commitments of the Bank to the Borrower have been terminated, it will:

4.1. Books and Records. Maintain books and records in accordance with GAAP and give representatives of the Bank access thereto at all reasonable times, including permission to examine, copy and make abstracts from any of such books and records and such other information as the Bank may from time to time reasonably request, and it will make available to the Bank for examination copies of any reports, statements and returns which it may make to or file with any federal, state or local governmental department, bureau or agency.

4.2. Quarterly Financial Statements. Furnish the Bank within forty-five (45) days after the end of each fiscal quarter internally prepared financial statements of the Parent, with respect to such fiscal quarter, which financial statements will: (a) be in reasonable detail and in form reasonably satisfactory to the Bank, (b) be accompanied by a certificate as to compliance with applicable financial covenants (including detailed calculations thereof) for the period then ended and whether any Event of Default exists, and, if so, the nature thereof and the corrective measures the Borrower proposes to take, (c) include a balance sheet as of the end of such period, an income statement for such period and a statement of cash flows for such period, (d) include prior year comparisons and (e) be on a consolidated basis for the Parent, its subsidiaries (including the Borrower) and any entity into which the Parent’s financial information is consolidated in accordance with GAAP.

4.3. Annual Financial Statements. Furnish the Bank within ninety (90) days after the end of each fiscal year of the Parent annual audited financial statements which will: (a) include a balance sheet as of the end of such fiscal year, an income statement for such year, and a statement of cash flows for such fiscal year; (b) be on a consolidated basis with the Parent, its subsidiaries (including the Borrower) and any entity into which the Parent’s financial information is consolidated in accordance with GAAP; (c) be accompanied by a certificate as to compliance with applicable financial covenants (containing detailed calculations of all financial covenants) for the period then ended and whether any Event of Default exists, and, if so, the nature thereof and the corrective measures the Borrower proposes to take, and (d) contain the unqualified opinion of an independent certified public accountant reasonably acceptable to the Bank and its examination will have been made in accordance with generally accepted auditing standards.

4.4. Payment of Taxes and Other Charges. Pay and discharge when due all indebtedness and all taxes, assessments, charges, levies and other liabilities imposed upon it, its income, profits, property or business, except those which currently are being contested in good faith by appropriate proceedings and for which it shall have set aside adequate reserves or made other adequate provision with respect thereto acceptable to the Bank in its reasonable discretion.

4.5. Maintenance of Existence, Operation and Assets. Do all things necessary to (i) maintain, renew and keep in full force and effect its organizational existence and all rights, permits and franchises necessary to enable it to continue its business as currently conducted; (ii) continue in operation in substantially the same manner as at present; (iii) keep its properties in good operating condition and repair; and (iv) make all necessary and proper repairs, renewals, replacements, additions and improvements thereto.

4.6. Insurance. Maintain, with financially sound and reputable insurers reasonably acceptable to the Bank, property and liability insurance with respect to its business generally, and its properties against such casualties and contingencies, of such types and in such amounts, as is customary for established companies engaged in the same or similar business and similarly situated, and provide evidence of such insurance to the Bank promptly upon request. In the event of a conflict between the provisions of this Section and the terms of any Security Documents relating to insurance, the provisions in the Security Documents will control.

4.7. Compliance with Laws. Comply in all material respects with all laws applicable to the Borrower and to the operation of its business (including without limitation any statute, ordinance, rule or regulation relating to employment practices, pension benefits or environmental, occupational and health standards and controls).

4.8. Bank Accounts; Banking Services. Establish and maintain with the Bank substantially all of its depository, investment, operating and disbursement accounts and its treasury management arrangements.

4.9. Environmental Indemnification. The Borrower shall defend and indemnify the Bank and hold the Bank harmless from and against all loss, liability, damage, expense, claims, costs, fines, penalties, assessments (including interest on any of the foregoing) and reasonable attorneys' fees, suffered or incurred by the Bank which arise, result from or in any way relate to a breach or violation by the Borrower of any Environmental Law, either prior to or subsequent to the date hereof, including the assertion or imposition of any lien or security interest on the Borrower's assets, or which relate to or arise out of any claim, suit, notice, order, demand or other communication made by any Person with respect to the Borrower relating to environmental matters, except to the extent that the subject of indemnification is caused by or arises out of the gross negligence or willful misconduct of the Bank or its agents or employees. The Borrower's obligations hereunder shall survive the termination of this Agreement and the repayment of the Obligations.

4.10. Financial Covenants; Definitions.

(a) **Consolidated Tangible Net Worth.** The Borrower shall cause the Parent to maintain Consolidated Tangible Net Worth greater than or equal to the sum of \$105,000,000 plus (i) an amount equal to 50% of the Parent's Consolidated net income (if positive) for each fiscal quarter ending after June 30, 2014 plus (ii) one hundred percent (100%) of the proceeds of each Equity Offering occurring after June 30, 2014 after having deducted from the gross proceeds of such Equity Offering all costs and fees associated therewith.

(b) **Leverage Ratio.** The Borrower shall cause the Parent to maintain a Leverage Ratio of not more than 2.00 to 1.00 as of the end of each fiscal quarter, on a historical rolling four quarters basis.

As used in this Agreement:

"Consolidated" means the consolidation in accordance with GAAP of the items as to which such term applies.

"Consolidated EBITDA" means, for the relevant period, the sum of the Parent's (i) Consolidated net income, (ii) Consolidated income tax expense, (iii) Consolidated interest expense, (iv) Consolidated depreciation and amortization expenses and (v) other Consolidated non-cash expenses for the Parent, all determined in accordance with GAAP; provided that there shall be excluded from Consolidated net income any extraordinary items of gain or loss (including, without limitation, those items created by mandated changes in GAAP).

"Consolidated Indebtedness" means all of the Parent's Indebtedness determined on a Consolidated basis.

"Consolidated Tangible Net Worth" means, for the relevant period, on a Consolidated basis: (i) the sum of the amounts appearing on the balance sheet of such entity as (a) the stated value of all outstanding stock and (b) capital, paid-in and earned surplus; less (ii) the sum of (a) the deficit in any surplus or capital account, including treasury stock, (b) the amount of any write-up subsequent to 1999 in the book value of any asset owned on such date resulting from the revaluation thereof subsequent to such date or any write up of any asset in excess of the costs of the assets acquired, (c) any amounts by which patents, trademarks, trade names, organizational expenses and other intangible items of similar nature and goodwill appear on the asset side of such balance sheet, (d) any amounts at which shares of the capital stock of the Parent appear on the asset side of such balance sheet, all as of the last day of the month previous to such particular time, and (e) any amounts for advances to shareholders, directors, officers, employees or Affiliates of the Parent which appear on the asset side of the balance sheet, except those made in the ordinary course of business.

“**Equity Offering**” means the public or private issuance of capital stock of the Parent other than that: (i) pursuant to an employee or director stock option plan, employee stock purchase plan, 401(k) plan, or other employee benefit arrangement, or (ii) issued solely for acquiring a Person as permitted under the Parent Loan Agreement.

“**Indebtedness**” means, without duplication: (i) all obligations (including capitalized lease obligations) which in accordance with generally accepted accounting principles would be shown on a balance sheet as a liability; (ii) all obligations for borrowed money or for the deferred purchase price of property or services; and (iii) all guarantees, reimbursement, payment or similar obligations, absolute, contingent or otherwise, under acceptance, letter of credit or similar facilities; provided, however, that Indebtedness shall not include accounts payable incurred in the ordinary course of business or accruals, made in accordance with GAAP, for liabilities for expenses incurred in the ordinary course of business, if those accounts payable or accrued liabilities do not constitute or represent obligations to repay borrowed money.

“**Leverage Ratio**” means, as of any date of determination, the ratio of (i) the Parent’s Consolidated Indebtedness to (ii) the Parent’s Consolidated EBITDA for the immediately preceding four fiscal quarters treated as a single accounting period.

“**Parent Loan Agreement**” means the Amended and Restated Loan Agreement of even date herewith between the Bank and the Parent, as amended, supplemented, restated or otherwise modified from time to time.

“**Permitted Liens**” means (i) liens for taxes not yet due and payable; (ii) liens in connection with any proceeding which is currently being contested in good faith and for which no foreclosure proceedings, attachments or proceedings in aid of execution have been commenced; (iii) liens in favor of the Bank or any affiliate of the Bank; (iv) liens securing leases of personal property and (v) liens by a bank on deposit accounts of the Borrower at such bank that arise by operation of law.

“**Person**” means any individual, corporation, limited liability company, partnership, trust, joint venture, unincorporated organization, association, government (foreign or domestic), any agency or political subdivisions thereof, or any other entity.

4.11. Additional Reports. Promptly upon discovery, provide written notice to the Bank of the occurrence of any of the following (together with a description of the action which the Borrower proposes to take with respect thereto): (i) any Event of Default or any condition, event, omission or act which, with the passage of time or the giving of notice, or both, would constitute an Event of Default (a “**Default**”), (ii) any litigation filed by or against the Borrower which, if adversely determined, would reasonably be expected to result in a material adverse change in the business, assets, operations, condition (financial or otherwise) or results of operations of the Borrower, (iii) any Reportable Event or Prohibited Transaction with respect to any Employee Benefit Plan(s) (as each such term is defined in ERISA) or (iv) any other event or circumstance which would reasonably be expected to result in a material adverse change in the business, assets, operations, condition (financial or otherwise) or results of operations of the Borrower.

5. Negative Covenants. The Borrower covenants and agrees that from the date of this Agreement until all Obligations have been paid in full and any commitments of the Bank to the Borrower have been terminated, it will not:

5.1. Indebtedness. Create, incur, assume or permit to exist or remain outstanding any Indebtedness, except for:

- (a) Any Indebtedness owed by the Borrower to the Bank or to PNC Bank, National Association;
 - (b) Indebtedness of the Borrower existing on the Closing Date to remain outstanding and unpaid after the Closing Date and listed on Schedule 5.1 and any extensions, renewals or refinancings thereof;
 - (c) Rental and lease payments for personal property in the ordinary course of the Borrower’s business; and
 - (d) Indebtedness secured by Permitted Liens.
-

5.2. Liens and Encumbrances; Negative Pledge. Create, assume, incur or suffer to exist any lien, security interest or other encumbrance upon any of their respective assets and properties, whether tangible or intangible, whether now owned or in existence or hereafter acquired or created and wherever located, nor acquire nor agree to acquire any assets or properties subject to a lien, security interest or other encumbrance, except for Permitted Liens. The Borrower shall not make or enter into any agreement (other than agreements with the Bank or PNC Bank, National Association) for the benefit of any Person not to grant liens or security interests.

5.3. No Limitation on Dividends and Distributions. Enter into or otherwise be bound by any agreement not to pay dividends to the Parent.

5.4. Merger or Transfer of Assets. Liquidate or dissolve, or merge, amalgamate or consolidate with or into any Person, or sell, lease, transfer or otherwise dispose of all or a substantial part of its property, assets, operations or business, whether now owned or hereafter acquired.

5.5. Acquisitions. Make acquisitions of all or substantially all of the property or assets of any Person without the prior written approval of the Bank (which approval will not be unreasonably withheld).

5.6. Guarantees. Guarantee, endorse or become contingently liable for the obligations of any Person, except in connection with the endorsement and deposit of checks for collection in the ordinary course of business.

5.7. Loans or Advances. Purchase or hold beneficially any stock, other securities or evidence of indebtedness of, or make or have outstanding, any loans or advances to, or otherwise extend credit (other than trade credit in the ordinary course of business) to, or make any investment or acquire any interest whatsoever in, any other Person, except for the investments (if any) held by the Borrower and disclosed on the financial statements of the Parent delivered to the Bank.

6. Events of Default. The occurrence of any of the following will be deemed to be an “Event of Default”:

6.1. Covenant Default. A default in the performance of any of the covenants or agreements contained in this Agreement and the failure or inability of the Borrower to cure such default within 30 days after the occurrence thereof; provided that such 30 day grace period will not apply to: (a) any default which in the Bank’s good faith determination is incapable of cure, (b) any default that has previously occurred, (c) any default in any financial covenants or any negative covenants, or (d) any failure to maintain insurance or to permit inspection of the books and records of the Borrower.

6.2. Breach of Warranty. Any financial statement, representation, warranty or certificate made or furnished by to the Bank in connection with this Agreement or the other Loan Documents shall be false, incorrect or incomplete when made.

6.3. Other Default. The occurrence of any Event of Default as defined in the Note or any of the other Loan Documents.

Upon the occurrence and during the continuation of an Event of Default, the Bank will have all rights and remedies specified in the Note and the Loan Documents and all rights and remedies (all of which are cumulative and not exclusive) available at law or in equity.

7. Conditions. The Bank’s obligation to close and make any advance under the Loans is subject to the conditions that as of the date of closing and each such advance:

7.1. No Event of Default. No Default or Event of Default shall have occurred and be continuing; and

7.2. Receipt of Documents. The Bank shall have received the Loan Documents and such other instruments, agreements, and documents which the Bank may reasonably request in connection with the transactions provided for in this Agreement, all in form and substance acceptable to the Bank.

8. Expenses. The Borrower agrees to pay the Bank (i) upon the execution of this Agreement, and otherwise on demand, all reasonable costs and expenses incurred by the Bank in connection with the preparation, negotiation and delivery of this Agreement and the other Loan Documents, and (ii) all reasonable costs and expenses incurred by the Bank in connection with any modifications thereto, and the collection of all of the Obligations, including but not limited to enforcement actions, relating to the Loans, whether through judicial proceedings or otherwise, or in defending or prosecuting any actions or proceedings arising out of or relating to this Agreement, including reasonable fees and expenses of outside counsel, expenses for auditors, appraisers and consultants, lien searches, recording and filing fees and taxes.

9. **Increased Costs.** On written demand, together with written evidence of the justification therefor, the Borrower agrees to pay the Bank all direct costs incurred and any losses suffered or payments made by the Bank as a consequence of making the Loans by reason of any change in law or regulation, or the interpretation thereof, imposing any reserve, deposit, allocation of capital or similar requirement (including without limitation, Regulation D of the Board of Governors of the Federal Reserve System) on the Bank, its holding company or any of their respective assets. Notwithstanding anything herein to the contrary, (i) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, regulations, guidelines, interpretations or directives thereunder or issued in connection therewith (whether or not having the force of law) and (ii) all requests, rules, regulations, guidelines, interpretations or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities (whether or not having the force of law), in each case pursuant to Basel III, shall in each case be deemed to be a change in law regardless of the date enacted, adopted, issued, promulgated or implemented.

10. **Miscellaneous.**

10.1. **Notices.** All notices, demands, requests, consents, approvals and other communications required or permitted hereunder (“Notices”) must be in writing and will be effective upon receipt. Notices may be given in any manner to which the parties may separately agree, including electronic mail. Without limiting the foregoing, first-class mail, facsimile transmission and commercial courier service are hereby agreed to as acceptable methods for giving Notices. Regardless of the manner in which provided, Notices may be sent to a party’s address as set forth above or to such other address as any party may give to the other for such purpose in accordance with this section.

10.2. **Preservation of Rights.** No delay or omission on the Bank’s part to exercise any right or power arising hereunder will impair any such right or power or be considered a waiver of any such right or power, nor will the Bank’s action or inaction impair any such right or power. The Bank’s rights and remedies hereunder are cumulative and not exclusive of any other rights or remedies which the Bank may have under other agreements, at law or in equity.

10.3. **Illegality.** If any provision contained in this Agreement should be invalid, illegal or unenforceable in any respect, it shall not affect or impair the validity, legality and enforceability of the remaining provisions of this Agreement.

10.4. **Changes in Writing.** No modification, amendment or waiver of, or consent to any departure by the Borrower from, any provision of this Agreement will be effective unless made in a writing signed by the party to be charged, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Notwithstanding the foregoing, the Bank may modify this Agreement or any of the other Loan Documents for the purposes of completing missing content or correcting erroneous content, without the need for a written amendment, provided that the Bank shall send a copy of any such modification to the Borrower (which notice may be given by electronic mail). No notice to or demand on the Borrower will entitle the Borrower to any other or further notice or demand in the same, similar or other circumstance.

10.5. **Entire Agreement.** This Agreement (including the documents and instruments referred to herein) constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof.

10.6. **Counterparts.** This Agreement may be signed in any number of counterpart copies and by the parties hereto on separate counterparts, but all such copies shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by facsimile transmission shall be effective as delivery of a manually executed counterpart. Any party so executing this Agreement by facsimile transmission shall promptly deliver a manually executed counterpart, provided that any failure to do so shall not affect the validity of the counterpart executed by facsimile transmission.

10.7. **Successors and Assigns.** This Agreement will be binding upon and inure to the benefit of the Borrower and the Bank and their respective successors and assigns; provided, however, that the Borrower may not assign this Agreement in whole or in part without the Bank’s prior written consent and the Bank at any time may assign this Agreement in whole or in part.

10.8. Interpretation. In this Agreement, unless the Bank and the Borrower otherwise agree in writing, the singular includes the plural and the plural the singular; words importing any gender include the other genders; references to statutes are to be construed as including all statutory provisions consolidating, amending or replacing the statute referred to; the word “or” shall be deemed to include “and/or”, the words “including”, “includes” and “include” shall be deemed to be followed by the words “without limitation”; references to articles, sections (or subdivisions of sections) or exhibits are to those of this Agreement; and references to agreements and other contractual instruments shall be deemed to include all subsequent amendments and other modifications to such instruments, but only to the extent such amendments and other modifications are not prohibited by the terms of this Agreement. Section headings in this Agreement are included for convenience of reference only and shall not constitute a part of this Agreement for any other purpose. Unless otherwise specified in this Agreement, all accounting terms shall be interpreted and all accounting determinations shall be made in accordance with GAAP.

10.9. No Consequential Damages, Etc. The Bank will not be responsible for any damages, consequential, incidental, special, punitive or otherwise, that may be incurred or alleged by the Borrower, any Guarantor or any other Person as a result of this Agreement, the other Loan Documents, the transactions contemplated hereby or thereby, or the use of the proceeds of any of the Loans.

10.10. Assignments and Participations. At any time, without any notice to the Borrower, the Bank may sell, assign, transfer, negotiate, grant participations in, or otherwise dispose of all or any part of the Bank’s interest in the Loans. The Borrower hereby authorizes the Bank to provide, without any notice to the Borrower, any information concerning the Borrower, including information pertaining to the Borrower’s financial condition, business operations or general creditworthiness, to any Person which may succeed to or participate in all or any part of the Bank’s interest in the Loans.

10.11 Governing Law and Jurisdiction. This Agreement has been delivered to and accepted by the Bank and will be deemed to be made in the State where the Bank’s office indicated above is located. **This Agreement will be interpreted and the rights and liabilities of the parties hereto determined in accordance with the laws of the State of Ohio, excluding its conflict of laws rules.** The Borrower hereby irrevocably consents to the exclusive jurisdiction of any state or federal court located in Hamilton County, Ohio; provided that nothing contained in this Agreement will prevent the Bank from bringing any action, enforcing any award or judgment or exercising any rights against the Borrower individually, or against any security or property of the Borrower, within any other county, state or other foreign or domestic jurisdiction. The Bank and the Borrower agree that the venue provided above is the most convenient forum for both the Bank and the Borrower. The Borrower waives any objection to venue and any objection based on a more convenient forum in any action instituted under this Agreement.

10.12. WAIVER OF JURY TRIAL. THE BORROWER AND THE BANK EACH IRREVOCABLY WAIVES ANY AND ALL RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR CLAIM OF ANY NATURE RELATING TO THIS AGREEMENT, ANY DOCUMENTS EXECUTED IN CONNECTION WITH THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED IN ANY OF SUCH DOCUMENTS. THE BORROWER AND THE BANK EACH ACKNOWLEDGES THAT THE FOREGOING WAIVER IS KNOWING AND VOLUNTARY.

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The Borrower acknowledges that it has read and understood all the provisions of this Agreement, including the waiver of jury trial, and has been advised by counsel as necessary or appropriate.

IN WITNESS WHEREOF, the Borrower and the Bank have executed and delivered this Loan Agreement as of the date first set forth above.

BORROWER:

LSI SACO TECHNOLOGIES INC.

By: /s/ Ronald S. Stowell
Ronald S. Stowell
Treasurer and Secretary

BANK:

PNC BANK CANADA BRANCH

By: /s/ Bill Hines, Regional President – Canada
Per Caroline Stade
Senior Vice President

ADDENDUM to that certain Loan Agreement dated as of June 19, 2014 (the “**Agreement**”) between **LSI SACO TECHNOLOGIES INC.** (the “**Borrower**”) and **PNC BANK CANADA BRANCH** (the “**Bank**”). Capitalized terms used in this Addendum and not otherwise defined shall have the meanings given them in the Agreement. Section numbers below refer to the sections of the Agreement.

3.1. **Existence, Power and Authority.** None

3.2. **Financial Statements.** None

3.3. **No Material Adverse Change.** None

3.4. **Binding Obligations.** None

3.5. **No Defaults or Violations.** None

3.6. **Title to Assets.** None

3.7. **Litigation.** None

3.8. **Tax Returns.** None

3.9. **Employee Benefit Plans.** None

3.10. **Environmental Matters.** None

3.11. **Intellectual Property.** None

3.12. **Regulatory Matters.** None

3.13. **Solvency.** None

3.14. **Disclosure.** None

Schedule 3.15 - Equity Interests; Subsidiaries & Partnerships. None

Schedule 5.1 – Existing Indebtedness. Indebtedness to the Bank or to PNC Bank, National Association

EXHIBIT 21**SUBSIDIARIES OF THE REGISTRANT**

Subsidiary	Business and Location	Percent Owned by Registrant	State of Incorporation
Grady McCauley Inc.	Digital image and screen printed graphics North Canton, OH	100%	Ohio
LSI Adapt Inc.	Project management and installation services North Canton, OH	100%	Ohio
LSI ADL Technology Inc.	Electronic Circuit Boards Columbus, OH	100%	Ohio
LSI Greenlee Lighting Inc.	[Inactive]	100%	Delaware
LSI Kentucky LLC	Menu board systems; metal fabrication Independence, KY	100%	Ohio
LSI Lightron Inc.	Fluorescent lighting New Windsor, NY	100%	Ohio
LSI Marcole Inc.	[Inactive]	100%	Tennessee
LSI MidWest Lighting Inc.	Fluorescent lighting Kansas City, KS	100%	Kansas
LSI Retail Graphics LLC	Interior graphics and signs Woonsocket, RI	100%	Ohio
LSI Integrated Graphics LLC	Screen and digital printed materials, and illuminated and non-illuminated architectural graphics Houston, TX	100%	Ohio
LSI Saco Technologies Inc.	LED lighting and LED video screen manufacturing, research and Development Montreal, Quebec	100%	Quebec, Canada
LSLSI Controls Inc.	Lighting control systems	100%	Oregon

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated September 10, 2014, with respect to the consolidated financial statements, schedule, and internal control over financial reporting included in the Annual Report of LSI Industries Inc. on Form 10-K for the year ended June 30, 2014. We hereby consent to the incorporation by reference of said reports in the Registration Statements of LSI Industries Inc. on Forms S-3 (File No. 333-169266 and File No. 333-191032) and on Forms S-8 (File No. 333-11503, File No. 333-91531, File No. 333-100038, File No. 333-100039, File No. 333-110784, File No. 333-169264, File No. 333-183747, and File No. 333-186446).

/s/ GRANT THORNTON LLP

Cincinnati, Ohio
September 10, 2014

Certification of Principal Executive Officer
Pursuant to Rule 13a-14(a)

I, Robert J. Ready, certify that:

1. I have reviewed this annual report on Form 10-K of LSI Industries Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 10, 2014

/s/ Robert J. Ready
Robert J. Ready
Principal Executive Officer

Certification of Principal Financial Officer
Pursuant to Rule 13a-14(a)

I, Ronald S. Stowell, certify that:

1. I have reviewed this annual report on Form 10-K of LSI Industries Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 10, 2014

/s/ Ronald S. Stowell
Ronald S. Stowell
Principal Financial Officer

CERTIFICATION OF ROBERT J. READY

**Pursuant to Section 1350 of Chapter 63 of the
United States Code and Rule 13a-14b**

In connection with the filing with the Securities and Exchange Commission of the Annual Report of LSI Industries Inc. (the "Company") on Form 10-K for the fiscal year ended June 30, 2014 (the "Report"), I, Robert J. Ready, Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert J. Ready

Robert J. Ready
Chairman of the Board and Chief Executive Officer

September 10, 2014

A signed original of this written statement required by Section 906 has been provided to LSI Industries Inc. and will be retained by LSI Industries Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION OF RONALD S. STOWELL

**Pursuant to Section 1350 of Chapter 63 of the
United States Code and Rule 13a-14b**

In connection with the filing with the Securities and Exchange Commission of the Annual Report of LSI Industries Inc. (the "Company") on Form 10-K for the fiscal year ended June 30, 2014 (the "Report"), I, Ronald S. Stowell, Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ronald S. Stowell

Ronald S. Stowell
Vice President, Chief Financial Officer, and Treasurer

September 10, 2014

A signed original of this written statement required by Section 906 has been provided to LSI Industries Inc. and will be retained by LSI Industries Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

